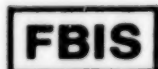


JPRS-CEA-86-105

23 SEPTEMBER 1986

China Report

ECONOMIC AFFAIRS



FOREIGN BROADCAST INFORMATION SERVICE

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23 SEPTEMBER 1986

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

LIAOWANG NOTES 'SATISFACTORY' ECONOMIC SITUATION

HK110343 Beijing LIAOWANG in Chinese No 30, 28 Jul 86 p 5

[Article by Xu Yaozhong [1776 5069 0022]: "A More Favorable Forecast for the Economic Situation in the Second Half of This Year"]

[Excerpts] The first 6 months of the 5 years covered by the "Seventh 5-Year Plan" had passed. Reviewing the economic situation in these 6 months, one may discover a few drawbacks. However, generally speaking, the overall situation was quite satisfactory.

The growth rate of industrial production was not too low. The growth rate in the first half of this year was 4.9 percent, apparently quite a low rate. However, this rate is an increase based on a 23.1 percent growth rate in the first half of last year. In terms of absolute figures, last year, the average monthly industrial output value was 69.2 billion yuan, whereas in the first half of this year, the average monthly industrial output value was 71.4 billion yuan. Judging by these growth rates and absolute figures, we will discover that the growth of industrial output value in the first half of this year was not too slow. In the first half of this year, industrial production turned out much more marketable goods than before, and power and raw and processed materials industries steadily developed, and more export goods were produced. All this shows that the development of the country's industrial production was quite normal in the first half of this year.

The market was stable and prices went up only very slowly. As a result of the steady development of production, there was an abundant supply of goods, the strains on the supply of the majority of commodities on the market were alleviated, and fewer goods were in short supply. The volume of the retail sales of foodstuffs, clothes, and consumer goods went up. The volume of the sales of fashionable clothes, expensive dress materials, high-quality household electrical appliances, cosmetics, and toys increased very significantly. The people lived peacefully and their savings increased.

The rapid growth of consumption funds was checked. In the first half of this year, the increase in the total amount of the cash the banks paid to workers of state-owned and collectively owned units and to individuals, the increase in the total amount of loans extended to peasants by the state, and the increase in the social groups' consumption of retailed goods were all much smaller than those in the first half of last year.

Furthermore, investment in fixed assets grew at a slower pace, revenue increased, and the country reaped bumper summer grain harvests.

What will be the economic situation in the second half of the year? According to some people involved in economic work, the economic situation in the second half of the year will take a further turn for the better, the economy will grow at a higher rate, and economic results will improve, hopefully. The departments in charge of economic work have recommended the following guiding ideology for the economic work in the second half of this year: The country should, with the attainment of better economic results as its central task, hold firm to the reforms, strengthen management, more satisfactorily organize production and circulation, "ensure 7 percent and strive for 8 percent" (which means to ensure an industrial growth rate for the whole year which is 7 percent higher than that for last year and to strive for an industrial growth rate for the whole year which is 8 percent higher than that for last year), and combine [tong yi--4827 0001] growth rates with results, performance, and reserve strength. The problem of reserve strength requires us to consider the problem of how to improve performance and results and to raise growth rates in the next 2 years.

Can we "ensure 7 percent and strive for 8 percent?" According to estimates, this is completely possible. If we want a 7 percent growth rate for the whole year, the average monthly industrial output value will have to be 75.9 billion yuan in the second half of the year; if, however, we want an 8 percent growth rate, it has to be 77.3 billion yuan. The industrial output value in June this year was 79.4 billion yuan. It is expected that the industrial value will be lower in the hot months and that it will go up again in the fourth quarter of the year. Thus, people involved in economic work suggest that so long as we work hard, we doubtless can achieve a yearly industrial growth rate of 7 to 8 percent.

However, the task of attaining better economic results in the second half of the year will be a formidable one. Judging by the situation in the first half of the year, we will find that the problem of poor economic results is China's most serious economic problem. Most of the economic targets were less satisfactorily fulfilled than in the first half of last year. Although we made some improvements, however, they were not very significant. It was mainly the high costs, the decrease in profits and the total amount of taxes collected, the problem of a greater increase in output value than that in revenue, the consumption of more materials, and the rather enormous trade deficit which reflected poor economic results. In addition, gross social demand still exceeded gross social supply without any change.

So long as various localities seriously implement the reform principle of "consolidating, digesting, replenishing, and improving" and adopt effective measures to attain better economic results, they doubtless can successfully fulfill the task of striving for a normal economic growth rate.

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CS0: 4006/1303

NATIONAL POLICY AND ISSUES

RENMIN RIBAO ON JOB OPPORTUNITIES IN CITIES, TOWNS

HK110915 Beijing RENMIN RIBAO in Chinese 4 Aug 86 p 1

[Report by reporter Wang Jin [3769 6210]: "55 Million New Jobs Created in Cities and Towns Over the Past 7 Years"]

[Text] The situation where the state takes care of everything concerning the work assignments of China's unemployed has been changed and replaced by a more practical method of providing employment.

The other day, a responsible person of the relevant department of the Ministry of Labor and Personnel told this reporter: In the 7 years since the 3d Plenary Session of the 11th CPC Central Committee, over 55 million new jobs have been created in cities and towns. The unemployment rate dropped from 5.9 percent in 1979 to 1.8 percent in 1985. During the Seventh 5-Year Plan period, the state will continue to implement the principle of the "three-in-one combination"--combining recommendations from labor departments, voluntary organizations, and persons seeking employment on their own behalf--and create several million new jobs in cities and towns every year.

While affirming the results attained in reforming the employment method, the responsible person also acknowledged the new conditions and problems that will be faced in the next 5 years. He said: In the Seventh 5-Year Plan period, the task of providing employment is still fairly arduous. It is estimated that, during that period, it will be necessary to create over 30 million new jobs in cities and towns and, following the in-depth development of the reform of the economic structure, the strengthening of labor management in enterprises, and the improvement of labor productivity, new arrangements will have to be made for some 15 million surplus workers and staff members in state enterprises throughout the country. Moreover, during the Seventh 5-Year Plan period, another 70 million people in the rural areas will be old enough to work and a considerable number of rural laborers will have to engage in other lines of work following an improvement in agricultural labor productivity. Undoubtedly, this will have an impact on employment in cities and towns. Given this new situation, the task of providing employment in cities and towns seems even more formidable. On the basis of carrying out the existing "three-in-one combination" experience, the departments of labor and personnel at all levels are continuously probing new methods of providing employment.

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CSO: 4006/1303

ECONOMIC DEVELOPMENT ZONES

TIANJIN PLANS MAJOR PROJECTS; FOREIGN INVESTMENT SOUGHT

Duesseldorf HANDELSBLATT in German 21 Jul 86 p 12

[Article by sz: "Eight Major Projects in the 5-Year Plan--Tianjin Wants to Involve Foreign Countries in Its Ambitious Buildup Program"]

[Text] Hong Kong--The city of Tianjin, near Beijing, plans to invite international bids on eight major projects, valued at DM13 billion, and will attempt to find financing for them from foreign countries also. Statements to that effect were made by Zhang Zhaoruo, director of the municipal economic relations and trade bureau, at a seminar in Hong Kong. According to Zhang, the eight projects have already been approved by the Central Government and are to be implemented as part of the recently announced 5-year plan.

The projects break down as follows:

- a steel mill with a production capacity of 3 million metric tons;
- a heating power plant with a capacity ranging from 1,200 to 1,400 MW;
- a coal project with a production capacity of 1.5 million metric tons per year;
- a chemical plant with a capacity of 450,000 metric tons of ethylene;
- an automobile manufacturing plant for the production of 300,000 cars;
- a cement plant capable of producing 600,000 metric tons;
- an electric railroad system between Tianjin and Tanggu;
- a 400 meter radio broadcasting tower.

Feasibility studies for most of the projects were completed this year and invitations to bid are to go out in 1987. In view of the shortage of foreign currencies, Zhang Zhaoruo explained that foreign capital is to be used for all

eight projects in the form of direct investments, credits and soft loans from foreign governments and international financial organizations. According to Zhang, Japan has already indicated an interest in the automobile factory and the radio transmitter, while European governments have shown their willingness to participate in the financing. Zhang said that if foreign firms should desire to make direct investments in these Tianjin projects, the city would be in a position to guarantee hard-currency profit transfers from its own currency reserves. The city's seminar had been arranged by the Hong Kong Trade Development Council.

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CSO: 4620/62

ECONOMIC DEVELOPMENT ZONES

MORE SATELLITE TOWNS IN ZHUJIANG DELTA

Beijing RENMIN RIBAO [OVERSEAS EDITION] in Chinese 24 Jun 86 p 1

[Text] The Guangdong provincial government recently approved the designation of the following localities in the Zhujiang delta as key industrial satellite towns: Cuihengcun Town, Dr Sun Yatsen's birthplace, and Zhangjiabian Town, both in Zhongshanshi; and Xingtian, Lecong, and Junan Towns, all in Shunde County. So far the number of key industrial satellite towns in the Zhujiang delta has increased to 64, up from 59 when the first batch was announced in October last year.

As pioneers in the Zhujiang delta opened zone, these satellite towns all enjoy preferential policies relating to tax, loans, and other matters. For instance:

-- Equipment imported for investment purposes by Chinese-foreign joint and cooperative ventures, and foreign-owned enterprises are exempt from tariffs, import tax, and value-added tax, as are all raw materials, parts, components, and packaging materials imported by those enterprises for the production of exports. Also exempt from tariffs, import tax, and value-added tax are vehicles imported by the enterprises or foreign businessmen for their own use and articles for office or domestic use.

-- Preferential treatment in corporate income tax and local tax will be accorded to production or scientific research projects financed by Chinese-foreign joint ventures, cooperative ventures, foreign-owned enterprises, and enterprises owned by Macao, Hong Kong, and Taiwan compatriots; technology- or knowledge-intensive projects in energy, transport, and harbor construction financed by foreign capital; and projects involving more than \$30 million in foreign investments and requiring a long time to recoup their original outlays.

-- The Bank of China and the China International Trust and Technology Investment Corporation will make foreign exchange loans on favorable terms to promising projects that will earn foreign exchange to finance their import of advanced technology and equipment and improved breeds.

-- Equipment and instruments required by existing enterprises, along with seeds, seedlings, fodder, drugs, and processing machinery essential to the development of an agricultural product processing industry will be exempt from tariffs, import tax, and value-added tax up to 1990.

ECONOMIC PLANNING

PRC SHELVES THREE GORGES DAM 'COMBINED PROVINCE' IDEA

HK150651 Hong Kong HONGKONG STANDARD in English 15 Aug 86 p 8

[Article by To Yiu-ming]

[Text] China has shelved the idea of forming a combined province for the proposed Three Gorges Dam in the Yantze River pending results of further study on the pros and cons of the multibillion project.

Construction has been postponed indefinitely until experts produce a more comprehensive feasibility study, according to Professor Zheng Jiandong at the Institute of Geology, State Seismological Bureau of China.

The project is expected to help relieve China's chronic energy shortages, control flooding and harness river water for irrigation.

The idea of a combined province, which would group together affected localities from various provinces, is to provide an administrative framework for better coordination during and after the construction works.

But it also causes objections from Chinese scientists who argue that the huge dam--the world's largest when completed--would damage the whole environment, destroy cultural landmarks, and cause the resettlement of up to one million people.

Professor Zheng told THE STANDARD that the Chinese authorities were particularly concerned about the environmental imbalances that could result from the construction.

Finance is another major headache as the project will cost more than U.S. \$10 billion (about HK\$78 billion).

"Cropping practices will get tremendous changes as water-level will be jet up in the upper stream but lowered in the lower part of the river," Professor Zheng said [sentence as published].

Faced with stiff criticisms, Chinese leaders have retreated and agreed to have a more thorough study of the feasibility of the project.

"The project carries significant implications for our future, affecting the way of life of our offsprings for generations," he said.

But China's commitment to developing nuclear energy including the Daya Bay project is unlikely to be reverted, he said.

It is understood Chinese authorities treat the criticisms on the Three Gorges Dam as well-informed while dissenting opinions on the Daya Bay project are conceived as emotional outcry.

"China would have to follow other advanced countries to develop nuclear power which provides steady supply of energy," he said.

It would be urgent to develop in south and east China where energy shortages were particularly acute, he said.

At present, China has good reserves in coal and oil but they are mainly located at remote areas in northwest or northeast part of China.

The State Seismological Bureau has been exploring coal and oil fields in south and east China to relieve the burden from transporting energy resources from a long distance.

Professor Zheng said they obtained good results in Shandong Province and Anwei Province with total coal production to exceed 30 million tons. The bureau expects Hunan Province in south China to produce coal in the near future.

But he pointed out the Pearl River Delta which is made up of granite would only stand a rare chance to have rich reserves in oil or coal.

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CSO: 4020/430

ECONOMIC MANAGEMENT

MEASURES OUTLINED TO CHECK ENTERPRISE LOSSES

OW011351 Beijing XINHUA Domestic Service in Chinese 0710 GMT 29 Aug 86

[Excerpts] Beijing, 29 Aug (XINHUA)--During the January-July period this year the nation's industrial output was 5 percent higher than in the corresponding period of 1985, indicating a normal growth. But because of increasing losses and production costs, which rose 58.8 and 4.2 percent respectively, profitable enterprises' earnings dropped 1.6 percent. To stop the trend of decreasing profits and rising losses, the Ministry of Finance and the State Economic Commission have set forth the following 10 measures:

1. Make continuous efforts to stimulate enterprise operations by means of reform. All regions and departments must earnestly implement the policies of the CPC Central Committee and the State Council on expanding enterprises' decisionmaking powers so as to effectively stimulate enterprise operations. They should assist enterprises in improving product quality, readjusting product mix, and increasing output of popular goods. They should guarantee that energy, raw and semifinished materials, transportation facilities, and capital needed for the production of popular, brand-name quality goods are available. Measures should be taken to reduce or replace production of inferior, unmarketable goods.
2. All enterprises must exercise effective control over their profit targets on the basis of ensuring product quality and reducing consumption. Profit targets for all workshops, teams and groups must be set individually. Accounting and management should be separate in units at various levels in an enterprise. A system of responsibility for profits and losses should be enforced in all workshops. Bonuses for workers and workshop supervisors should be carefully assessed on the basis of the workshop's profits or losses each year. Workshops which have successfully accomplished their production quotas may have larger bonuses; but those which have not should have smaller or no bonuses at all.
3. The trial measures issued by the Ministry of Finance, the Ministry of Labor and Personnel, and the State Economic Commission last January on awarding state industrial and communications enterprises for conserving raw and semifinished materials and fuel should be enforced at all levels. All enterprises should take measures to reduce consumption of resources in the course of production.

4. To effectively implement the principle of "to each according to his work," a floating wage system should be adopted. According to the actual situation in the various regions and departments, and by doing ideological work, enterprises should, whenever possible, tie their bonuses to that part of the pay that has increased after wage reform. This amount of bonus and pay should fluctuate according to the enterprise's economic performance so that it will more effectively stimulate the workers' enthusiasm.

5. All outlays must be properly controlled according to plan. There should be no open-ended, limitless expenditure. With the exception of wages, welfare funds, trade union budgets, depreciation charges, and repairing expenses, which will be defrayed according to the relevant state regulations, the workshop budgets and administrative expenses of all enterprises for the second half of 1986 should be 5 to 10 percent lower than the actual expenditure during the corresponding period of 1985.

6. All enterprises must make every effort to mobilize their workers to increase production and conserve resources. On the basis of comparing performance and differences with each other, all enterprises should encourage their staffs and workers to present rationalization proposals as well as suggestions for lowering consumption, improving quality, conserving expenses, and increasing profits.

7. An enterprise must, in accordance with state regulations, pay taxes for the additional income it gains as a result of self-financed technological transformation. It must not withhold such taxes.

8. The following measures should be adopted to handle unprofitable enterprises according to their actual conditions:

a. Improve the leadership over the work of reversing losses, and institute a system of responsibility in reversing losses at all levels. Principal leaders of all regions and departments must earnestly supervise the work of reversing losses, and they should charge responsible departments with the responsibility of reversing the losses of subordinate enterprises. They should, in particular, investigate each and every unprofitable enterprise as to why they are losing money, put forth countermeasures, and give them a time limit to stop their losses.

b. Financial authorities will continue to underwrite an enterprise's estimated losses, but not for the amount that exceeds the set target. Should losses fall below the target, the enterprise may retain part of the unspent amount, or even all of it. The financial authorities may also gradually reduce the enterprise's obligations.

c. If an enterprise is a producer of goods in short supply, or if its losses are caused by outmoded equipment, or if, after having been examined by a financial department or economic commission, its technological transformation is considered effective in reversing losses although not much

money has been spent on it, financial authorities may, according to their capability, allocate (or loan) it the money it needs to cover its losses from 1 to 3 years, so that it can use the money to replace its equipment and make a profit.

d. Measures governing state ownership, collective operation, and taxation may be used to handle perennially unprofitable small enterprises. These enterprises may also be held responsible for their own profits or losses. With the approval of the financial departments (or bureaus) or economic commissions of the respective provinces, autonomous regions, and municipalities directly under the central government, these enterprises may also be leased out to be run by other operators.

3. Responsible departments should assist those enterprises whose goods are unsalable and whose consumption of resources is high in reorganizing their operation or changing their production within a certain time limit. Any enterprise that has failed to change production must be closed down, or have its operation suspended.

9. There shall be no unauthorized apportionment of expenses to enterprises. All localities should conduct an investigation and take effective measures to reduce irrational burdens borne by enterprises.

10. No region or department may set its own rules in levying fees for using state-owned land or exploiting state-owned mineral resources. Any region or department that has done so, or that has collected any fees, must discontinue the practice and return the money to the enterprise or turn it over to the central treasury.

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CSO: 4006/1321

ECONOMIC MANAGEMENT

ROLE OF KEY ENTERPRISES IN HORIZONTAL ECONOMIC TIES

Beijing GONGREN RIBAO in Chinese 23 Apr 86 p 2

[Article: "How Can Large, Key Enterprises Play a Role in Lateral Economic Integration?"]

[Text] [Editor's Note] Recently the Institute of Industrial Economics of the Chinese Academy of Social Sciences and this newspaper's industrial and commercial departments jointly invited 24 comrades from 14 large key enterprises, including the Anshan Iron and Steel Complex, the Daqing Oilfield, the Capital Iron and Steel Complex, the Hubei No 2 Jointly Managed Automobile Company, and the Yanshan Petrochemical Plant to a symposium to discuss the role that large key enterprises should play in and the requisite conditions for lateral economic integration, and to make some proposals about putting into effect "Regulations on Various Problems in Giving Further Impetus to Lateral Economic Integration" promulgated by the State Council.

The "Turnkey" Role of Large Enterprises

Following State Council promulgation of "Regulations on Various Problems in Giving Further Impetus to Lateral Economic Integration," (hereinafter the 30 Articles), development at all levels in China's economic integration will flourish. However, most important is still the integration of enterprises, which is the foundation for all economic integration. Because of their characteristics and their position in the national economy, large key enterprises will have to play an even more crucial role in enterprises' integration.

Large key enterprises may become nuclei for entrepreneurial blocs or entrepreneurial unions.

Within any given entrepreneurial bloc, the juridical rights and political position of enterprises is equal; but for an entrepreneurial bloc to function as an organization, it must have principals and subordinates, a nucleus and an outer ring; otherwise, it will lack cohesion. But who is to act as the nucleus and become the "leader of a host of dragons?" This nucleus can neither be isolated nor rely on others but must come into being through its own role and under its own steam. Generally speaking, large enterprises have fairly powerful economic and technical forces, and they have name brand products and

social prestige. They pose an attraction for medium and small scale enterprises, and they can naturally become mainstays and a nucleus for entrepreneurial blocs.

Development of entrepreneurial integration using large enterprises as mainstays helps bring about an equitable organizational structure. Practice has demonstrated that when large enterprises integrate with medium and small enterprises, the proliferation of spare parts, the practice of specialized production, and the generation of funds for short term loans can surmount both being "large and all-embracing" and also surmount being "small and all-embracing." In addition, China cannot undertake everything at once in its four modernizations. By using large enterprises as keys in developing entrepreneurial integration, their advantages may be fully utilized. This can energize and assist medium and small enterprises both technically and managerially, and it can complement and give impetus to the development of large scale enterprises' production elements and production capacity, thereby giving impetus to the development of overall social productivity and to promoting the advent of the "four modernizations."

Large scale enterprises will play a radiating role in lateral economic integration. This role will be manifested, on the one hand, as "fusion." It will attract and energize a large number of voluntary unions of medium and small scale enterprises. It will also be manifested in "fission." As a result of large scale enterprises' self proliferation, "cell" division or "hens laying eggs," a number of enterprises will be born that will give impetus to entrepreneurial integration developing to a higher plane.

Large scale enterprises acting as mainstays and nuclei for the formation of entrepreneurial blocs help macroeconomic control under a new system of organization. We reform for the purpose of building a planned commodity economy. As producers of and dealers in commodities, enterprises should act independently and have the initiative in their own hands in administrative and managerial authority. Faced with the task of giving freer rein to and enlivening several hundred thousand enterprises large and small, the state must use primarily indirect means of control, and must exercise macrocontrols in key areas. The formation throughout the country of several score to several hundred entrepreneurial blocs under the aegis of large scale enterprises, making them pillars of the national economy, will not only help demolish the separation between central and local authorities to enliven enterprises, but will even more greatly help the state conduct planned management in a focused way. Generally speaking, the leadership teams of large scale enterprises are of rather good quality, and they have a fairly sophisticated understanding of policies. Entrepreneurial blocs led by large enterprises can handle in a fairly understanding way relationships between the overall situation and its parts. They can lead entrepreneurial blocs in an understanding way to do things in accordance with national laws and policies to achieve liveliness without chaos.

Problems Encountered in Integration

The "30 articles" have pointed the way toward development of lateral economic integration and will play a major role in giving further impetus to the

country's economic integration and promotion of economic reform. Everyone unanimously agrees that this is a fine document. Nevertheless, there is still some apprehension about whether it will be genuinely possible to put the "30 articles" into effect.

The thing about which everyone is concerned, first of all, is the possibility that under control of the territorial thinking that "fertile water should not be allowed to flow down to the fields of others," in taking up the banner of lateral economic integration, possibly enterprises will not be spurred to integrate voluntarily, will instead resort to administrative organizational methods laterally "pushing together" enterprises within local units and local areas so that new things are placed into the orbit of the old system, the "30 articles" thereby becoming distorted in the course of being put into effect.

People retain a vivid memory about how during the past several years both central and local authorities organized quite a few local and national industrial companies that contravened the principles of voluntary participation for mutual benefit. Some of these companies that had been formed through administrative fiat put into effect "six centralized" or "nine centralized" management, and some of them applied the planning authority and authority over materials that they controlled to institute direct control over enterprises. As a result, enterprises within the companies had neither self-determination in production and operations nor the ability themselves to accumulate to make changes or to develop, and thus they had no authority or power to engage in integration. Existence of companies formed by administrative fiat actually forced a lack of separation between political and business responsibilities. This was not only bad for giving impetus to development of enterprises' productivity, but also constituted a major obstacle to enterprises carrying out lateral economic integration that cut across regional, trade or departmental lines.

In addition, since large key enterprises had large production capabilities and made large profits, they became major targets for direct control by central and local authorities. Specifically, some industrial departments practiced highly centralized management over subordinate enterprises. Not only large enterprises that annually provided the state billions of yuan in profits and taxes, but enterprises of a purely production nature organized their production in accordance with command plans handed down by departments in charge. Furthermore, plan quotas were steadily increased while supplies of materials could not be assured. The results of production (including both products and profits) were virtually all paid to the state, the amount of profit retained per capita being very low. These enterprises have yet to obtain a position as relatively independent producers and dealers in commodities. No matter how pressing their needs, it is difficult for them to free themselves from the shackles of departments in charge of them and carry out lateral economic integration. People feel very strongly that such methods of managing enterprises are like "tying up the 'tigers' and releasing the 'monkeys.'"

In summary, promotion of lateral economic integration requires, first of all, that enterprises have vitality and that they have self-determination. Enterprises, and particularly large key enterprises, must be freed from

various forms of direct central and local control such as national corporations and departmental input-output contract responsibility systems. Unless this is done, it will be very difficult to make use of the key role of large enterprises in lateral integration.

Several Suggestions on Spurring Integration

In focusing on the foregoing problems, comrades participating in the discussion maintained that effective lateral economic integration required that enterprises be enlivened first, and that large key enterprises, in particular, be enlivened. Enterprises have money and authority, but only when they are genuinely enlivened do they have the capacity to expand outward and integrate. Today, some authority that should be delegated to enterprises has yet to be delegated to them, and some authority that has been delegated to them has been taken back. Macrocontrol ought not to stifle enterprises, and loss of macrocontrol does not result in any way from the enlivening of enterprises. The state should take further actions so that relevant regulations promulgated in the past such as "The 10 Articles on Expansion of Authority" and the "14 Articles" for increasing the vitality of large and medium size enterprises are genuinely put into practice. It is apparent from the successful experiences of the Capital Iron and Steel Complex and the Hubei No 2 Jointly Managed Motor Vehicle Company that enlivening of enterprises does not require that the state make concessions to enterprises. All that is needed is good policies and enterprises will be able to come alive, and once they come alive, they will be able to produce results. In this regard, it is recommended that the state again select a number of large key plants that face heavy burdens in making replacements and improvements, that have low profit retention, and that lack the funds to carry out lateral economic integration, applying special policies to them so they can play a greater role in lateral integration. These policies would include the following:

--Practice of the methods used in the Capital Iron and Steel Complex and at the Hubei No 2 Jointly Managed Motor Vehicle Company of incremental increases in the contracting of responsibility for profits, or dual contracting for payment to the state of profits plus technical transformation to provide large enterprises with necessary conditions for transformation and development carried out by themselves.

--Decrease in the proportion of command plans. Should this be difficult to effect, then a system of either a fixed or incrementally increased contracting of responsibility for command plan tasks could be instituted, the average value of command output plans for varieties of goods for 3 years prior to fixed contracting of responsibility being used as a base figure, no change guaranteed for a period of 5 years, and incremental rates of increase being determined on the basis of the different circumstances prevailing in individual enterprises where contracting of responsibility increases incrementally. Following contracting of responsibility, all products produced over and above amounts contracted may be sold by the enterprises themselves with no egalitarian and indiscriminate transfers to higher authority.

Not only should enterprises be encouraged to export so they can earn foreign exchange, they should also be encouraged to produce goods to take the place of imports by providing them with a portion of the foreign exchange that is saved as a result. This would spur enterprises' efforts to improve their technical skills and produce more fine quality products.

--Revamping of all levels of companies formed through administrative fiat, ensuring that enterprises have the right to join or leave these companies voluntarily. Departments methods of contracting input-output responsibility should be re-evaluated to fulfill the principles of a separation of political and entrepreneurial responsibilities and enterprises being relatively independent economic entities.

--Need to draw up necessary laws to provide legal protection against encroachment for enterprises' self-determination in both operations and lateral economic integration. Some comrades additionally suggested establishment of an "enterprise self-determination guarantee committee" to act as an institution to which enterprises might appeal when their rights of self-determination have been encroached upon.

--Entrepreneurial blocs that have large key enterprises as their nuclei should be separate from central and local authorities and made part of a new organizational system. Some well-run large entrepreneurial blocs should be selected for special separate listing as entities with the State Planning Commission and the State Economic Commission, and conditions created for a gradual transition from national and local authorities to large entrepreneurial blocs of responsibility for balancing out plans. Until such time as socialist unified markets have been established, supply of state owned materials should likewise be allocated to entrepreneurial blocs along with plans, the entrepreneurial blocs themselves further assigning both plan quotas and materials internally.

--Selection of certain entrepreneurial blocs able to compete in foreign markets, allocating to them self-determination to engage in foreign trade such as medium size open door cities possess, including the authority to parley directly with foreign traders, to decide on projects, to sign contracts, to quote prices, to make foreign exchange settlements, and to use foreign exchange. Entrepreneurial blocs should be permitted internally to transfer around and distribute a certain amount of foreign exchange as needed.

--Large entrepreneurial blocs should be permitted to establish internal trust and investment companies to provide short term funds to members of integrated entities for loans or investment.

--Entrepreneurial blocs should institute managerial responsibility systems under leadership of boards of directors. Boards of directors should be elected jointly by enterprises participating in the integration. All plants, large and small, should have an equal position, and they should both enjoy and abide by the rights and obligations contained in entrepreneurial bloc regulations. The board of directors would be the supreme authority in entrepreneurial blocs and it would have policy making authority for the enterprises under guidance of

state plan. The chairman of the board of directors would be the entrepreneurial bloc juridical representative responsible to the state. The board of directors would appoint bloc company managers and these managers would be responsible to the board of directors.

--State investment in fixed assets should be changed from the past method of division between central and local authorities. State investment in some construction projects should be given to large entrepreneurial blocs or else tenders should be called for, enterprises being encouraged to open tenders jointly to promote development of lateral economic integration.

--In carrying out lateral economic integration, large key enterprises must keep their eyes on more than the present situation. They must have a strategic outlook, taking as their own responsibility the promotion of improvements and bringing about the four modernizations; having as their goal the improvement of overall economic results of entrepreneurial blocs and improvement of socio-economic results; and carrying forward the "older brother" style in leading the individual enterprises that make up the bloc in joint development and common advance under the principles of voluntary participation, mutual benefit, equality and consultation.

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CSO:4006/1033

ECONOMIC MANAGEMENT

BRIEFS

TECHNICAL INNOVATIONS URGED--Beijing, August 31 (XINHUA)--The State Economic Commission and the All-China Federation of Trade Unions called on all 80 million workers throughout the country to take an active part in a drive to lower production costs and improve product quality by putting forward rational proposals and carrying out technical innovations. All those contributing to the drive will be rewarded, said officials from the State Economic Commission. According to a meeting jointly called by the two departments yesterday, there is great potential in improving product quality and lowering cost and it is necessary to encourage all workers to pool their wisdom and carry out technical innovations to lower the consumption of raw materials and energy. The joint meeting called on factories and industrial departments to give any necessary support to putting into execution any useful proposals and gadgetry and put them on the technology markets for exchange. It was learned that workers put forward nearly 20 million technical innovation items from 1981 to 1985. Statistics from 49 major cities showed that more than 1.14 million rational proposals and technical innovations were carried out in 1985 alone, bringing in an economic result valued at 4.6 billion yuan. [Text] [Beijing XINHUA in English 0609 GMT 31 Aug 86 OW] /6662

CONFERENCE STRESSES DEVELOPMENT--Tianjin, August 31 (XINHUA)--Some 250 urban planning experts and city mayors ended a five-day discussion here today on urban development strategies. "With the development of urban economic reforms in recent years, the functions of cities are changing now, and we must adapt and make the cities promote economic growth," said Lian Zhong, newly-elected chairman of China's Urban Studies Association. He said this during the association's first annual conference held here, in the third-largest city of China. Lian Zhong is also the vice-minister of urban and rural construction and environmental protection. "Big cities are most important to a commodity economy because they can help set up economic networks with surrounding areas and develop regional markets," said Loan. "How to overcome the administrative separation between different regions and develop such markets requires much careful study," he said. China set up the urban studies association in January 1984, with Vice-Premier Wan Li as honorary chairman. According to conference data, 260 city mayors and vice mayors have joined the association. In addition, 34 local associations have been set up in 34 cities, said Ye Rutang, minister of urban and rural construction and environmental protection, who also attended the conference. Participants submitted 160 research papers on China's plans for urbanization, urban economic development,

and urban ecology. During the conference, participants also decided to set up an urban studies fund. [Text] [Beijing XINHUA in English 0543 GMT 31 Aug 86 OW] /6662

CITY PLANNING, CONSTRUCTION REFORMS--Tianjin, August 31 (XINHUA)--China needs to reform its city planning and construction system to facilitate the progress of the present urban economic reforms. Ye Rutang, the minister of urban and rural construction and environmental protection, made this point in a speech highlighting the role of city planning and construction reforms. He said that such reforms should include a clearer definition of the rights of the central and local governments, and thorough separation of administration and management in state enterprises. He called for greater power to be given to cities in legislation and decisionmaking concerning this matter. He was speaking at the first annual conference of China's urban studies associations, which closed here yesterday. "In addition," he said, "urban construction requires overall planning and cooperation among the various government organizations concerned." He added, "The present economic reforms require a big city to lead the regional economy and establish its economic network with surrounding areas. City planners thus must study the relationship between economic and social, urban and suburban, and local and national factors," the minister added. [Text] [Beijing XINHUA in English 0551 GMT 31 Aug 86 OW] /6662

FACTORIES ADVERTISE FOR DIRECTORS--Beijing, August 15 (XINHUA)--Shenyang Automobile Industry Company has advertised nationwide for directors for its three factories, XINHUA learned today. Observers here view this as a new experiment in the on-going economic reforms. Until now, practically all factory directors in China has been appointed by the government. The new directors will be chosen from among applicants on a competitive basis, said Zhao Xiyu, the company's general manager. They will work under a three-year contract. The pioneer of the "enterprise assets responsibility system," the company will award or penalize the directors according to whether they have increased the factories' assets. The industrial output value and profits will also count. This will stimulate the directors to increase productivity while preventing over use of the existing assets, Zhao added. "In other words, they have to coordinate the factories' immediate and long-term interests," he said. The candidates for the directors of the factories, a spring factory, an auto clutch factory and a spring factory, can either be an individual or a group of three to five people. The directors will enjoy full power in management, appointment of personnel, adjustment and establishment of administrative setups and reform on distribution system, he said. [Text] [Beijing XINHUA in English 0607 GMT 15 Aug 86 OW] /6662

CSO: 4020/432

FINANCE AND BANKING

BRIEFS

PEOPLE'S INSURANCE COMPANY EARNINGS--Beijing, August 29 (XINHUA)--The People's Insurance Company of China earned a total of 2.23 billion yuan from its domestic and overseas business transactions in the first half of this year, according to the latest statistics from the company. Of this, 1.76 billion yuan came from domestic business, 59 percent more than the same period last year, while the overseas business scored 145 million U.S. dollars, an increase of 25.4 percent. More and more school children, pregnant women and rural enterprise workers have taken out life insurance policies. Between January and June, new life insurance premiums totaled 390 million yuan, a sharp rise of 177 percent over the same period last year. During this period, urban and rural families spent nearly 55 million yuan for property insurance, 89.4 percent more than the same period last year. However, the company paid out 535 million yuan and 24.5 million U.S. dollars respectively on both domestic and foreign business losses in the first six months. [Text] [Beijing XINHUA in English 1204 GMT 29 Aug 86 OW] /6662

BEIJING BUYS BONDS--Beijing, August 23 (XINHUA)--Today's economic news in brief. Beijing residents bought the city's first lot of bonds, worth 22 million yuan (about 5.9 million U.S. dollars), between August 15 and 18 at an interest rate of nine percent per year. The Beijing branch of the Industrial and Commercial Bank of China plans to issue financial bonds totalling 70 million yuan (about 19 million U.S. dollars) to raise money to retool the city's small- and medium-sized enterprises and improve public facilities. [Excerpt] [Beijing XINHUA in English 0701 GMT 23 Aug 86 OW] /6662

CSO: 4020/432

MINERAL RESOURCES

BRIEFS

OPERATIONS TARGET MINERAL RESOURCES--Urumqi, August 13 (XINHUA)--More than 1,000 geologists from all over China are undertaking joint operations in search of mineral resources in the Xinjiang Uygur autonomous region, according to regional officials here today. The operations began early this year. With stress on the prospecting of nonferrous metals, it has been listed as a key scientific project for China's current five-year plan ending 1990. The geologists, from some 60 units including the Ministry of Geology and Mineral Resources and the Chinese Academy of Sciences, have the support of thousands of local geologists. Xinjiang, in northwest China, has an area of 1.6 million square kilometers, one-sixth of China's total. Development of its mineral resources, believed to be abundant, is "essential" to China's modernization endeavor, local officials said. Some 6,000 geologists are working in the northern part of the Tarim Basin on the biggest oil prospecting project ever undertaken under the auspices of the ministry, the officials reported. The geologists are equipped with the best facilities available in China, including an imported drilling rig that can penetrate the earth to a depth of 9,000 meters. They have sunk a number of exploratory wells, including two ejecting oil and gas flows of commercial value, the officials said. [Text] [Beijing XINHUA in English 0949 GMT 13 Aug 86 OW]

PEASANTS, HERDSMEN HELP IN MINING--Xining, August 6 (XINHUA)--Peasants and herdsmen are putting a hand in mining in the Qaidam Basin in Qinghai Province, which is known as the "bowl of treasures" for its abundant mineral resources. According to the Provincial Bureau of Geology and Mineral Resources, local cooperatives have put in five million yuan to open 36 small mines with a labour force of 3,000. Mineral resources being mined include iron, copper, asbestos, coal and aluminum-zinc. A bureau official said that the small mines have helped increased wealth for the state and boosted the income of local peasants and herdsmen. People in Xiariha village in Dulan county, where the Mongolian, Tibet and Han people lived, opened a small aluminum-zinc mine and earned more than 200,000 yuan for the collective last year. With the money, the village has rebuilt a small hydropower station and opened a metal working factory and a honeycomb briquet workshop. Last year, local banks provided loans of three million yuan to support local people in opening mines. [Text] [Beijing XINHUA in English 0647 GMT 6 Aug 86 OW]

MINERAL DEPOSITS FOUND--Beijing, August 20 (XINHUA)--The Qaidam salt basin in northwest China's Qinghai province has proven salt reserves of 70 billion tons, scientists of the National Salt Lake Research Institute said. The institute geologists, attached to China's Academy of Sciences, said they have also found some of the world's largest deposits of lithium, magnesium and boron in Qinghai, Tibet and Inner Mongolia. The data will assist in mineral mining, they said, and also help railroad engineers find the best road beds for new rail lines. Earlier research made possible a 32-kilometer section of the railroad from Qinghai to Tibet built on solid salt. [Text] [Beijing XINHUA in English 0643 GMT 20 Aug 86 OW]

SILVER AND TIN MINE FOUND--Large-scale deposits of silver and tin have been found in the Ar Horqin grasslands of the Inner Mongolia autonomous region. [Text] [Beijing XINHUA in English 1511 GMT 12 Aug 86 OW]

GOLD MINE BELT DISCOVERED IN SHANXI--A geological prospecting team recently discovered a gold mine belt in the southwestern section of Shanxi's Zhongtiao Mountain. This gold mine belt consists of 35 lodes of mineral ores. The average grade is 4.67 gram per ton. The best grade is as high as 200 grams per ton. The departments concerned are planning to mine it jointly. /Text/ /Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 17 Aug 86 p 1/ 12228

CSO: 4006/1299

DOMESTIC TRADE

BRIEFS

XIZANG SELLS HOUSES--Lhasa, August 16 (XINHUA)--The Tibet Autonomous Region has sold its first group of houses to state-owned enterprises, collectives and individuals, said an official of the Lhasa Home Construction Development Corporation. The construction of this group of buildings containing 830 apartments started in spring 1985. Each apartment costs from 28,000 yuan to 63,000 yuan. In this capital city of the region, with a population of 105,300, the official said, each person has 4.1 square meters of living space. The official also said that the company built these houses with a bank loan and by pooling funds. Near these buildings are post offices, savings banks, hospitals, kindergartens, primary schools, commercial networks, recreational facilities and a library. The buyers of, either collectives or individuals, own them and may pass them on to their heirs, the official said. [Text] [Beijing XINHUA in English 1224 GMT 16 Aug 86 OW]

SOUTHWEST CHINA FAIR CONCLUDES--The 5-day second commodity fair of southwest China, including Sichuan, Yunnan, Guizhou, Guangxi, and Chongqing, concluded on 9 August. The turnover volume totaled 540 million yuan, which is more than that for the previous one because of flexible transaction methods the brisk business. The most popular commodities of the fair were hardware, electrical appliances, and products for the transport industry. Their turnover volume accounted for more than 30 percent of the total volume. General merchandise, textile, knitwear, and chemical products also had a brisk market. [Summary] [Kunming Yunnan Provincial Service in Mandarin 1000 GMT 10 Aug 86 HK]

HOUSEHOLD APPLIANCE PRODUCTION--Beijing, August 18 (XINHUA)--Chinese consumers are faced with a surplus of television sets, cameras and tape recorders, but refrigerators still remain hard to find, said today's ECONOMIC DAILY, citing a State Statistics Bureau survey. Refrigerator production, at 633,000 this year, fell short of demand, but a big increase in electric fan production, reaching 6.5 million, exceeded consumer demand. The supply of sewing machines and bicycles met demand, with bicycle production reaching 12.6 million. Television sets, washing machines, cameras and cassette tape recorders exceeded market demand, with a surplus of tv sets in the first six months amounting to 120 percent. This was mainly due to the uneven supply of black-and-white sets which have a greater market in the countryside, said the paper. Of 736,000 cameras produced in the first six months, 625,700 sold, but 45,900 transistor radios, however, remain in stock, said the paper. The paper's article was based on an incomplete survey of 46 cities. [Text] [Beijing XINHUA in English 0748 GMT 18 Aug 86 OW]

FOREIGN TRADE AND INVESTMENT

SOVIET REVIEW OF PRC TRADE FAIR IN MOSCOW

Moscow SOTSIALISTICHESKAYA INDUSTRIYA in Russian 26 Jul 86 p 3

[Article by A. Zaitsev and A. Polekhin: "A Review of Broad Possibilities: PRC Trade Fair Opened Yesterday in Moscow's Sokolniki Park"]

[Text] While still far away, one can guess correctly what country it is which has become the manager-tenant of the extensive pavilion--this can be done by means of the Chinese national melodies which reach one from there. And in the pavilion itself the PRC presents its own diverse, sometimes unique products in all their abundant richness.

On an area covering 2500 square meters there are more than 4,000 exhibits. They have been very carefully selected by the 27 ministries and trading companies of China which are taking part in this review. During the last few years the trade and economic ties between the USSR and the PRC have developed significantly. Over the last five years the annual volume of Soviet-Chinese trade has grown more than nine-fold, having reached an amount worth 1.6 billion rubles. And by 1990 it is scheduled to almost double.

The exhibition which has opened here--the first such since the PRC's fair in Moscow during 1953--presents practically all the sectors of China's national economy. It reflects the achievements of the PRC's industry, which has mastered the production of many types of contemporary products, as well as the traditionally high quality of indigenously Chinese goods.

Machinery and equipment for the mining, petrochemical, and light industries occupy an extensive part of this exhibition. Demonstrated here are machine tools with NC as well as machining centers. The fair likewise presents personal computers and laser technologies.

Specialists in medicine will most likely be attracted by the microwave device for contactless acupuncture. Housewives will not fail to pay attention to the small-size microwave ovens. And, of course, hardly anyone will remain indifferent to the renowned Chinese porcelain, silks, carpets, furs, feather and printed items.

And one can become acquainted with the garment items not only on the stands but also in a special hall for displaying fashions; the latter are demonstrated by a group of mannequins sent to Moscow by the All-Chinese Silk Company. And the

first few visitors have already awarded high marks to the uniqueness and elegance of the works executed by the Chinese model-makers and garment-makers.

The fair constitutes an important milestone in Soviet-Chinese trade and economic relations and should become an incentive to further development.

"We would like," noted Jia Shi, the chairman of the Chinese Committee for Aiding the Development of International Trade, "our exhibition to familiarize Soviet people with China's successes over the past 30 years, to strengthen mutual understanding and friendship between our peoples, to facilitate the development of economic and trade ties between the two countries. In particular, the Chinese delegation will discuss with the USSR Chamber of Commerce and Industry plans for the exchange of fairs. The first of these--a trade and industry fair of the USSR--is scheduled to be conducted in Beijing already at the end of this year."

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FOREIGN TRADE AND INVESTMENT

FRG ECONOMIC INSTITUTE REVIEWS TRADE DEFICIT, EXPORT PROSPECTS

Duesseldorf HANDELSBLATT in German 17 Jul 86 p 8

[Article by cr: "Structural Weaknesses an Obstacle to Lasting Growth in Exports: Beijing Strives to Correct Balance of Trade Deficit by Improving Basic Terms of Foreign Trade']

[Text] Dusseldorf, 16 Jul--The overheated boom in the PRC since the fall of 1984 has led to a record-setting deficit in the balance of trade. For that reason the restoration of the foreign trade balance is being declared the primary goal of the seventh 5-year plan (1986-1990).

As the German Institute for Economic Research [Deutsches Institut fuer Wirtschafts-forschung (DIW)] writes in its latest weekly report, all too drastic cuts in imports could, in the medium term, reduce the chances for development of the economy at home. Last year Chinese imports doubled over the previous year to 125.9 billion yuan (60.2 billion yuan the previous year), the exports reached 80.9 billion yuan (compared to 58.1 billion yuan the previous year). In the opinion of the DIW, an increase of imports by China cannot be expected for 1986.

The institute views the currently evident economic cooling off as a favorable prerequisite for the reestablishment of a foreign trade balance. The gross industrial production in the first quarter of 1986 registered a growth of only 4.2 percent. The equivalent figure for the same period in the year before was still 23 percent. In the overall medium-term planning timeframe of the coming 5 years, exports are to rise by an average of 2 percent per year.

Various shifts have taken place in the commodities pattern. According to the observations of the Berlin-based institute, it was primarily a favorable development in agricultural production which brought about a radical change in trade with foodstuffs. It was possible, from 1982 on, to reduce imports of grain--which in the 1970's still constituted one-fifth of all imports--by more than two-thirds; the share of foodstuffs among all imports decreased to circa 4 percent. Also in the future, foodstuffs are to play an important role in the export offering and are to receive priority treatment.

Despite a surplus on world markets, China was able, thanks to profitable contracts, to disproportionately increase its exports in 1985 in the sector of fuels with 7.8 million tons of coal, 30 million tons of crude oil, and 6.2 million tons of petroleum products. Not until the beginning of 1986 did an adjustment as a result of lower spot prices become necessary, which will result in a yield decrease of 2.5 billion dollars for 1986. Also because of increased domestic consumption, the DIW does not currently see an increase in the amount of oil exports.

There was likewise a steady increase in recent years in the import of machines and vehicles. The 354,000 vehicles imported in 1985 had a total value of 3.3 billion dollars and comprised passenger cars (30 percent), all-terrain vehicles (4 percent), trucks (31 percent), buses (16 percent) and others. By comparison, exports in this category in 1985 fell by 48.4 percent below those of the previous year. In the opinion of the China-watchers in Berlin, the reasons for this are first of all the increased demand on the domestic market and secondly the interrupted export relations. The FRG delivered circa 8 percent of all machines imported in 1985. More than twice as large were also the imports of telecommunications and communications equipment, while imports of durable consumer goods experienced a strong jump that has since been stopped.

All in all, in the course of the sixth 5-year plan, China imported fewer primary products and substantially more processed, technically higher-valued goods, the DIW writes. In exports, the lower prices could be compensated only in part by increased quantities, in some cases shares of the market were also lost. According to DIW analyses, the terms of trade for China worsened, as was also the case in the two previous years.

In the future, the basic terms of foreign trade, above all, are to be made more advantageous. Intended steps lie on four levels:

--by means of administrative controls and indirect management measures, imports are to be reduced and exports to be stimulated;

--cooperation with foreign firms is to be made easier;

--financing the development of the domestic economy and foreign trade is to be improved; and

--the companies and agencies involved are to cooperate more with one another and through an extension of their authority are to help raise the reform of foreign trade to a new level.

These objectives, which are "not entirely without contradiction," are viewed by the DIW as a first step toward the reduction of the trade deficit, but at the same time the institute points up the latent danger that, because of the inherent structural weaknesses of the system and the overall economic situation worldwide, a lasting increase in exports is only conditionally possible.

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FOREIGN TRADE AND INVESTMENT

FIRST JOINT VENTURE WITH JORDAN VIEWED

Ceramic Factory

Amman THE JERUSALEM STAR in English 31 Jul-6 Aug 86 p 15

[Text]

• The first Chinese industrial venture to be run outside China will be in Jordan. An arrangement between the Jordan Ceramic Company and a Beijing-based Chinese company has been signed for the establishment a new factory to produce vases and other Chinese goods in Jordan. This factory is expected to be in operation by the beginning of next year.

Details of Joint Venture Given

Amman THE JERUSALEM STAR in English 13-19 Aug 86 p 11

[Article by Ibtisam Dababneh]

[Text] THE JORDAN Ceramic Industry Co and China National Aero-Technology Import and Export Corp (CNATIEC) are to establish a joint venture project for the production of decorative and household ceramics.

Operations should begin in early 1987 and production will include vases and decorative items and household goods such as bathroom furnishings.

A new production line will be established at the Jordan Ceramic Industry factory and will have an expected annual capacity (the total quantity of finished products in the first year) of 30-40 tonnes or

20,000 pieces. Production quantities in following years will be determined by the situation of the previous years production and sales.

According to the JCIC general director Fathi Heyassat the production capital for the venture JD 50,000 divided with JCIC investment providing 60 per cent or JD 30,000. CNATIEC providing 40 per cent or JD 20,000. He added that the capital can be increased or decreased depending on the production and management situation of the factory.

The factory, which is the first Chinese industrial project to be run outside China will be jointly managed by both parties through 'Supervisory' board which will ap-

point the most capable and qualified Chinese engineers and skilled workers.

Mr Heyassat says CNATIEC has agreed to try to use as many local workers as possible commensurate with maintaining quality and provided none of the Chinese technical secrets are revealed.

According to the JCIC's studies Jordanian imports ceramics annually run at about 80 tonnes and come mainly from Italy, China and Japan. As the raw materials needed for producing such ceramics are available in Jordan in abundance, the JCIC signed the agreement with the Chinese firm to provide the technical expertise.

The joint venture will use the existing workshops and equipment at JCIC where possible.

Production costs will be calculated according to the weight of finished products at 580 fils per Kg. This price includes cost of clay mud, firing, colour and glaze, heating, existing production equipment maintenance. Such a price Mr Heyassat added is fixed for the first four years, after which, there may be an increase of price of no more than 5 per cent of the total, depending on market situation and raw materials.

The production from the new factory will be sold in Jordan and other Arab countries.

The period for the joint venture agreement is 8 years starting from the date of signature of this contract and to be extended automatically to two years upon the approval of both parties. Mr Heyassat said that the JCIC alone entitled to continue production after the joint venture comes to an end and to preserve the name and trade mark of the products.

The two parties will share the profits and responsibility for losses by both of the plant in proportion to their respective shares.

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CSO: 4400/269

FOREIGN TRADE AND INVESTMENT

TRADE MINISTRY OFFICIAL ON COUNTERTRADE

Beijing RENMIN RIBAO (OVERSEAS EDITION) in Chinese 13 May 86 p 1

[Article by Zhu Ling [2612 7227]: "Expand Exports to Remedy Trade Imbalance; China Actively Develops Countertrade"]

[Text] China is in the process of developing countertrade in an active and planned way. Products of which China has ample supply are exported in exchange for goods and materials needed in domestic production and on the domestic market. China can then expand its exports and improve its trade imbalance with some countries, according to Zhu Youlan [2612 0645 5695], assistant to the Minister of Foreign Economic Relations and Trade (MOFERT), in an interview with reporters from the ZHONGGUO RIBAO [China Daily] a few days ago.

Zhu Youlan said that countertrade started last year. In May of 1985 MOFERT established a special organization within the Export Bureau to coordinate and manage this work. Countertrade presently takes three major forms: barter, an exchange of goods of equal or approximate value based on the needs of both parties. Mutual purchase is based on an agreement whereby the seller must purchase a certain number of goods from the purchaser after selling its products. The values of the goods in question are not necessarily equivalent. In compensation trade, the exporting country agrees that the equipment it sells will be used on loan to produce goods by which the exporter will be compensated.

She said that China has developed these kinds of trade with almost 20 countries. Preliminary statistics show that the total of last year's countertrade was \$700 million to \$800 million. This figure excludes compensation trade that is figured into foreign investment in China. Bartered exports include quite a few primary goods such as corn, cotton, tea leaves, jute, grey cotton cloth, printed cloth, bicycles, and mechanical and electrical goods. Bartered imports include some industrial raw materials urgently needed in China and market materials such as wood, steel, cement, pig iron, vehicles and sugar.

In 1986 China also tried out barter whereby import projects spur on exports. The Huaneng (China Energy) Corp has separately signed general barter agreements with several companies in the United States, Japan and France to import power plants to promote China's exports.

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CSO: 4006/1058

FOREIGN TRADE AND INVESTMENT

FUJIAN WELCOMES TAIWAN BUSINESS

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 May 86 p 5

[Article by Xu Yiming [6079 0001 7686]: "Fujian Provincial Committee Secretary Chen Guangyi Says Fujian Welcomes Doing Business with Taiwan"]

[Text] Secretary of the Fujian Provincial Party Committee Chen Guangyi [7115 0342 3015] said in a meeting today in Beijing with reporters from Hong Kong and Macao: "We welcome doing business with Taiwan."

The provinces of Fujian and Taiwan are connected by ties of geography, history, society and blood. Chen Guangyi said that "Fujian naturally has an important duty to strive to realize a peaceful reunification with Taiwan."

He said that Fujian welcomes doing business with Taiwan and expanding contacts. Taiwanese entrepreneurs who invest in plants in Fujian can enjoy even more preferential treatment than overseas Chinese.

12615
CSO: 4006/1058

FOREIGN TRADE AND INVESTMENT

FUJIAN'S CHINESE-FOREIGN TOWNSHIP ENTERPRISES

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 Jun 86 p 3

[Unattributed report: "Chinese-Foreign Joint Venture Township and Town Enterprises Are Flourishing: More Than Half of the Output of 60 Percent of the Enterprises are Sold Abroad"]

[Text] Township and town enterprises financed jointly by Chinese and foreign capital have been flourishing in Fujian in recent years. As of late May, 133 such enterprises have come into existence, representing a total of 74 million yuan in foreign investments. These joint and cooperative ventures, whose products are exported to dozens of countries and regions, can be found in over 20 industries.

While only 31 Chinese-foreign joint and cooperative ventures existed among Fujian's township and town enterprises in 1984, they were joined by 96 in 1985 alone, thanks to the conscientious effort by every locality in the province to implement its overseas Chinese and investment policies. By offering overseas Chinese appropriate preferential treatment in tax, land use fees, and profit sharing, the province has stimulated their patriotic fervor so that more and more of them are investing and setting up enterprises in their native land. Impressed by Fujian's overseas Chinese housing policy, a Mr. Fang was so moved that he remitted home 420,000 yuan last year for the establishment of a chemical plant as a cooperative venture with the locality.

Most township and town enterprises jointly financed by Chinese and foreign capital were set up with an eye to international as well as domestic market needs and in light of the local technological level and resource availability. Most of their products can be sold in the world market. The enterprises can be found in more than 20 industries and manufacture over 1,000 kinds of products, including knitwear, apparel, electronics, machinery, arts and crafts, food, articles of daily use, plastic goods, and toys. Reportedly more than 60 percent of them export a high 50 percent of their output, while some are completely export-oriented. In Shishi Town, Jinjiang County, a group of township and town enterprises jointly financed by foreign capital exported to the US as many as 30,000 dozen pairs of jeans and 200,000 jackets last year alone.

12581
CSO: 4006/1129

FOREIGN TRADE AND INVESTMENT

SHENZHEN NONFERROUS METALS EXPORTS

Duesseldorf HANDELSBLATT in German 21 Jul 86 p 26

[Article by vwd: "Deals Made at a Mini-Trade Fair in Shenzhen"]

[Text] Hong Kong--During a 10-day "mini-trade fair" held in July in the Shenzhen free trade zone by the China National Nonferrous Metals Import/Export Corp (CNIEC), contracts were signed for export of about \$30 million worth of nonferrous metals, according to a Japanese trade paper in Hong Kong.

However, a representative of Mitsubishi Corp was of the opinion that it was hardly believable that such large metal export deals were concluded at such a small fair. The aggressive export transactions, he felt, could be explained solely with the efforts of the Beijing government to bring about a drastic reduction in the country's trade deficit caused by the devaluation of the local currency vis-a-vis the U.S. dollar. Further, that Mitsubishi had hopes of profiting by this situation, by having signed a tentative cooperative agreement with the Chinese province of Guangdong about the possible export of Titanium ore which is to be mined on the island of Hainan. Should the ore samples, which are to be sent to Tokyo for assaying, test favorably, Mitsubishi might enter into a joint venture. However, the spokesman added that his firm had also shown an interest in a joint venture with the Province of Guizhou, in southwestern China, involving the export of Bauxite.

A Hong Kong representative of CNIEC was however unwilling to provide detailed figures on the export agreements made during the Shenzhen trade fair. He merely indicated that considerable export business had been consummated, with unrefined aluminum and zinc having been among the most important import goods.

9273/9738

CSO: 4620/62

FOREIGN TRADE AND INVESTMENT

GUANGDONG TO ENFORCE NEW IMPORT, EXPORT INSPECTION RULES

Beijing RENMIN RIBAO [OVERSEAS EDITION] in Chinese 9 Jun 86 p 3

[Text] Starting 1 July, Guangdong will impose fines on enterprises and units that violate import and export commodities inspection regulations and its detailed rules and regulations, according to the Guangdong Import and Export Commodities Inspection Bureau.

Imports and exports inspected by the bureau increased almost 60 percent in 1985 compared with 1984. This represents a rise of over 80 percent in value, making the port the nation's busiest in the handling of exports and imports. Sources disclose that almost one fifth of imports that passed through Guangdong last year were found to be substandard, seriously damaged, or incomplete. During the first quarter of this year, 20 percent of Guangdong's imports did not meet the standards of the bureau. Meanwhile, the volume of substandard exports made up 0.2 percent of all exports inspected.

Officials concerned in the inspection bureau pointed out that some units fail to report to the bureau after a shipment of imports arrives from abroad, thus precluding prompt inspection. When quantity or quality problems are discovered later, the deadline for filing compensation claims has passed and the state sustains losses as a result.

To tighten the inspection of import and export commodities, the Guangdong Provincial People's Government recently promulgated the "Implementation Measures of Guangdong Province for Export Inspection and Supervision," which requires the inspection of all import and export commodities. The "penalty fee measure" scheduled to go into effect on 1 July will impose a fine equivalent to less than 20 percent of the value of the commodity concerned on any enterprise which fails to report for inspection, evades inspection, forges or alters commodity inspection documents or their seals, or practices other forms of fraud.

Under the new regulations, all enterprises engaged in the production of exports, including export processing enterprises financed by foreign capital, must register with their local commodity inspection agency before the end of June. Since the beginning of this year, the Shenzhen Commodity Inspection Bureau has required exporters of vegetables to Hong Kong to complete a "report on pesticide use on export vegetables." Only after vegetables are inspected and found to be up to standard will they be cleared for export.

The authorities concerned will set up commodity inspection offices in Dongyuan and Shaoguan to step up inspection there. So far the bureau has established branches in such places as Shenzhen, Hainan, Shantou, Zhuhai, Zhanjiang, Mei County, Zhaoqing, Zhongshan, Huangpu and Sanya.

FOREIGN TRADE AND INVESTMENT

SILK EXPORT OFFICIAL ON FAVORABLE SITUATION

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 20 May 86 p 1

[Article by Feng Xiao [7458 7197] and Lu Zhenhua [7120 2182 5478]: "Silk Exports Enjoy Favorable Situation in 1986; More than 300 Million Yuan in Foreign Exchange Earned in First Four Months, More Than Twice as Much as Same Period Last Year"]

[Text] China's silk trade has formed an initial nationwide export production system that earned more than \$950 million last year in foreign exchange. In the first four months of this year more than \$327 million was earned, a more than 21 percent increase over the same period last year. Li Haoran [2621 3185 3544], deputy general manager of the China Silk Corp, revealed this unprecedented thriving situation to reporters a few days ago.

He explained that this system includes departments of production, circulation, scientific research and information. Its formation marks a revolution in silk management and is creating a new situation in China's silk export production.

He said that regarding overall planning, the coordination of work for trade production and exports guarantees export supplies. The Silk Corp has made known to various areas the plans for silk export production, raw material supplies, and foreign trade purchases. All aspects can be balanced to make export supplies stable and plentiful and goods even better suited to market demands.

In the past few years the silk industry has accelerated the technological transformation of key export enterprises to strengthen export production. According to Li Haoran, the Silk Corp spent 80 percent of its technological transformation expenses on the exporting industries last year. Goods produced by the China-foreign Yantai Silk Dyeing Works cooperative production venture fundamentally reached foreign standards for the same products thanks to the import of advanced technology. This year the venture can export 500,000 meters of pure printed silk.

With reference to information, research and consulting services, he said that the Silk Corp presently has overseas offices in the United States, Japan, Western Europe and Hong Kong which employ industrial production personnel who go abroad in small trade groups, participate in international silk exchange

activities and are responsible for studying product information and for perceiving international market demands. After studying market information in Western Europe and Hong Kong last year, Jiangsu Provincial Planning Committee members produced silks and satins suited to market demands in a timely manner and earned more than \$20 million in foreign exchange.

Regarding export management, the export market and foreign customers' confidence has been stabilized because of the rational extension of export licenses, unified foreign trade and control over "parallel goods."

We also enjoyed a favorable situation in terms of horizontal economic relations. We greatly spurred the development of new products, accelerated the upgrading and updating of products, adjusted and enriched export supplies and raised the potential for earning foreign exchange.

Li Haoran made a comparison of last year to the period before 1981 when the company was founded. The gross output value of the silk industry grew from 5.4 billion yuan to 8.4 billion yuan, or an increase of more than 55 percent. The average annual increase was 12 percent. The volume of silk produced rose from 835 million meters to 1.45 billion meters, an increase of 73 percent. Foreign exchange earned from silk exports rose from \$722 million to \$956 million, an increase of 32 percent. The export product mix also improved. Silks (raw materials) dropped from the original 48 percent to 41 percent. Silks and satins increased from 33 percent to 38 percent while clothing and finished products rose from 17.5 percent to 20 percent.

Li Haoran very confidently said he predicts that the proportion of production and exports of silks and satins, silk clothing and silk finished goods will continuously grow in the future in line with the favorable perfection of silk export production and with continuous improvements in production capacities and technological levels.

12615

CSO: 4006/1058

FOREIGN TRADE AND INVESTMENT

TECHNOLOGY IMPORTS SINCE 1985 EXAMINED

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 May 86 p 1

[Article: "China Imported Almost 4,000 Technology Items Since 1983, Two-thirds of Which Are at Early 1980s Levels Abroad; Business Amounted to \$3.6 Billion; One-third of Items In Production"]

[Text] The target of 3,000 planned technology imports to China from abroad between 1983 and 1985 has been exceeded; a total of 3,900 items have actually been imported. Business amounted to \$3.6 billion.

Approximately one-third of the items have gone into production, achieving rather good economic results.

Two-thirds of the 3,900 import items are at the level of the early 1980s abroad. The rest are at the level of the late 1970s. It is estimated that once all of the items are underway, two yuan in output value can be made from every one yuan of investment per year. We can entirely recover investments in 2 or 3 years and accelerate the technological transformation process of some enterprises.

When announcing this news, the JINGJI RIBAO [Economic Daily] reported that China's textile, food production, household appliance and packaging industries made great strides in terms of production output and quality through combining technology and trade and making imports in a planned way.

China has separately introduced rather advanced manufacturing technologies for a group of basic parts and major technological facilities from more than 30 countries in the past few years to augment the potential for regeneration of China's heavy industry. After these items are consumed and assimilated the quality standards of more than 5,000 mechanical products can reach that of the late 1970s and early 1980s.

12615
CSO: 4006/1058

FOREIGN TRADE AND INVESTMENT

BRIEFS

UK-FRG STEEL MILL REPORTED--It has been alleged that Hong Kong's most prominent businessman, Chinese-born Sir Y.K. Pao, has formed a British-German consortium for the purpose of building a steel mill in China. Leaders of the consortium are, on the British side, the engineering firm Davy McKee and on the German side the Ferrostahl AG. Other participating British firms are General Electric Co, British Oxygen, Northern Engineering Industries and Babcock & Wilcox. According to the weekend edition of the Hong Kong SUNDAY MORNING POST, the project is to cost DM8.8 billion and is to have a production capacity of 3 million metric tons of steel. The POST also quotes Sir Y.K. Pao as saying that the project agreement is to be signed on the occasion of the visit of Britain's Queen Elizabeth II, who will make the first visit ever to China by a British monarch next October. [Text]
[Duesseldorf HANDELSBLATT in German 21 Jul 86 p 12] 9273/9738

CSO: 4620/62

SPECIAL ECONOMIC ZONES

PREFERENTIAL TREATMENT FOR FOREIGN BANKS IN SHENZHEN

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 Jun 86 p 3

[Text] Guangzhou, 22 Jun ZHONGGUO XINWEN SHE--The municipality of Shenzhen has recently formulated several policies giving foreign banks preferential treatment. This is the first time foreign banks have been given preferential treatment in a special economic zone.

The preferential policies are as follows: 1) The Shenzhen branches of foreign banks will be exempt from the 3 percent combined industrial and commerce tax from 1 July 1986 to the end of 1995. 2) Hong Kong, Macao, and foreign depositors of Shenzhen's foreign banks will, up till 1995, be exempt from paying personal income tax and from the automatic withholding of tax on interest earned. 3) Hong Kong, Macao, and foreign banks will be exempt from paying income tax on the interest they earn when they make loans to foreign banks in Shenzhen at discount rates charged by international banks when they lend to one another.

Foreign banks so far have set up 13 branches and 9 offices in Shenzhen.

12581
CSO: 4006/1129

LABOR AND WAGES

NEED SEEN FOR 100 MILLION JOBS IN NEXT FIVE YEARS

Hong Kong TA KUNG PAO in Chinese 7 May 86 p 3

[Article by Xinhuashe: "Huge Employment Pressure in China's Cities and Towns As Nearly 100 Million Jobs Needed Within 5 Years, National Labor and Personnel Conference Discloses. Key Lies in Reform of Employment System to Spur Both the Collective and Individual Economies"]

[Text] Beijing, 6 April. The correspondent obtained the following from the National Conference of Labor and Personnel Department and Bureau Directors now in session. During the Seventh 5-Year Plan period, (1986-1990), China will continue to face daunting tasks in solving its labor employment problems.

In cities and towns, a newly added workforce of 30 million plus another approximately 15 million excess staff members and workers from state-owned enterprises will have to be placed. In rural villages, a surplus workforce numbering several tens of millions will be shifted to non-agricultural fields.

In a report to the conference, Minister of Labor and Personnel Zhao Dongyuan [6392 2639 1354] said that the interaction among the labor forces in these three areas have placed new employment pressures on cities and towns.

Zhao Dongyuan noted that the key to proper solution of the employment problem under new circumstances lies in continued reform of the employment system and comprehensive implementation of a multi-channel employment policy encompassing the "three links" of the state-owned, the collective and the individual to give positive impetus to the collective economy and the individual economy and to implement policies on tertiary industries, the better to expand employment channels.

Zhao Dongyuan said that during the past 5 years substantial progress and results have been scored in reform of China's labor system. Practice in reforming the employment system during the past several years has moderated sharp contradictions in employment that existed for a time, has changed people's outlook on employment, and the first steps have been taken to find a road for employment that is in keeping with China's national circumstances.

During the Sixth 5-Year Plan, China's cities and towns found jobs for 35 million people, the rate for people awaiting employment in cities and towns

dropping from the 4.9 percent of 1980 to 1.8 percent in 1985. Both the quality and employability of the workforce also rose. The number of personnel employed during the past several years following initial training now amounts to 40 percent of the total number of the employed.

Zhao Dongyuan maintains that during the Seventh 5-Year Plan, simultaneous with good performance in city and town employment, the Ministry of Labor and Personnel should work together with departments concerned to guide a rational shift of surplus rural workforces, carry out the policy of "leaving the soil but not leaving the countryside," and strictly control the entry into cities of workforces in accordance with pertinent national regulations. This must be done through the gradual building of a new labor system that is closely linked to job placement, to training for employment and to social regulation to bring about a gradual socialization of the management of the workforce for a rational flow and a rational use of the workforce.

9432

CS0:4006/1029

LABOR AND WAGES

PERFECTION OF WAGE SYSTEM REFORM DISCUSSED

Beijing CONGREN RIBAO in Chinese 24 Apr 86 p 3

[Article by Li Fuyu: "Constantly Perfect Wage System Reform"]

[Text] Wage reform is an important integral part of reform of China's economic system. In 1985, national organizations and entrepreneurial units carried out a wage system reform, and reform of the wage system used in enterprises was also explored. All in all, progress in wage reform was fairly smooth and results good.

1. National Organization and Entrepreneurial Unit Wage Reforms

The wage system formerly in use for workers in the country's national organizations and institutions had been formulated during the 1950's. During the past 30 years, very great changes had occurred in the national economy and in situations in various regards, so the old wage system was no longer in keeping with new circumstances. Furthermore, fairly serious egalitarianism and some other problems also existed in wage distribution; there was a proliferation of wage standards, and wage differentials were not equitable; thus reform was necessary.

The new wage system for workers in national organizations and entrepreneurial units is a structured wage system in which wages for official positions are the primary component. The latest reform of the wage system put the wages of workers in national organizations and in institutions on a new track, and it simplified and centralized wage standards for workers in national organizations and institutions. However, some problems that have not been ironed out continue to exist, requiring solution as national financial resources permit.

The first is to continue to solve the problem of wages for technical personnel in specialized fields in accordance with the system for appointing technical personnel in specialized fields to technical jobs in specialized fields. Further investigation and study of wage standards problems for entrepreneurial units, including those engaged in scientific research, education and health, is also about to begin to come up with ideas on additional revisions.

The second is proper solution to prominent problems left over from the wage reforms that were carried out during 1985. Thorough investigation and study is required of marked inequities in wages following the 1985 blanket reclassification to prevent the rise of new anomalies.

The third is readjustment of wage sub-classifications in some places. All around rationalization of problems with wage relationships between one area and another requires across-the-board consideration and gradual solution. During 1986, it will be possible only to make partial readjustments of wage sub-classification to the extent that actual circumstances and national financial expenditures permit.

2. Reform of Wages in Enterprises

The wage system used in China's enterprises was also established during the 1950's, and today a very large number of problems exist in it. Some fairly prominent ones are serious egalitarianism, wage distributions and the development of production having little to do with an enterprise's economic effectiveness or the labor contribution of individual employees. Second is numerous and confused wage standards that cause no small number of anomalies between one industry and another and among employees. Third is overcentralization of the wage management system, stifling control, and enterprises lack of needed autonomy about wage distributions. The emphasis of wage reform in enterprises is on gradually overcoming egalitarianism, doing away with "large common pots," correct handling of relations between the state and enterprises and between enterprises and employees with regard to distributions, and conscientious carrying out of a policy of distributions according to work.

Most enterprises used the second step in the change from payment of taxes instead of profits as a basis for institution of a fluctuating system of bonuses geared to an enterprise's economic results. In enterprises having good economic results, bonuses increased somewhat; conversely, they increased somewhat less. A small number of enterprises also instituted pilot projects whereby the total amount of employee wages was linked to the enterprise's economic results. These reforms are still only partial attempts to solve problems. Wage reform in business enterprises has a bearing on economic relationships in many regards and is much more complex and more difficult than wage reforms in national organizations and institutions; consequently, it has to be handled conscientiously.

First of all, the majority of enterprises that have instituted a system whereby bonuses fluctuate with economic results must further improve the ways in which bonuses are used. In addition, beginning from January 1986, they are to include as part of costs at a rate of 7.50 yuan per month that portion of bonuses used during 1985 to effect a blanket change in wages, and collection of taxes on bonuses is to be maintained unchanged for four months. In this way, the total amount of basic wages for enterprises throughout the country will increase 4.5 billion yuan. Preparations should be made to take appropriate economic actions to regulate gradually problems of excessive gaps in the increase in bonus base figures brought about by differences in capacity

between one enterprise and another, differences in set profit base figures and differences in rises and falls in prices of products or raw materials.

Second, where problems exist in pilot projects in which a small number of enterprises practice the linking of the total wage bill to economic results, supplementary actions to effect improvements should be taken. Plans this year also call for the selection of a small number of enterprises in certain industries that are suited to the linking of wages to material goods or actual amount of work quotas for the carrying out of pilot projects in this regard. This is for the purpose of providing experiences for the study and formulation of future wage reform programs for enterprises. No matter the form of linkage instituted, quality criteria must be overriding. No matter how well other standards are met, if quality does not meet set requirements, wages may not be increased.

Third, distribution of wages within enterprises must be linked to the institution of economic responsibility systems, the continuation of fixed number of personnel quotas, technical assessments, labor measurement statistics and such basic tasks to provide scientifically reliable data for carrying out the principle of distributions according to labor.

Some employees have asked why it is that in the wage system reform for national organizations and institutions, wages are paid out of the state treasury, while wage reform for enterprises requires "self-payment?" The so-called "self payment" wage reform is a popular mode of expression when actually one should say that enterprises use a portion of bonus funds in a blanket reform of newly formulated wage standards and in providing for the promotions of some employees. This results from the different nature of enterprises as compared with national organizations and institutions, and the different places they occupy in national income distribution. Business enterprises are economic entities located in the initial distribution stage for national income. Part of the national income that they create is paid in the form of taxes and profits to become national financial income. The remaining portion is retained in accordance with national policies by the enterprise for use in the expansion of reproduction, for use in paying employees and bonuses, and for the improvement of welfare services for employees. National organizations and institutions are not economic entities, and they are in the national income further distribution stage. The state has no choice but to use money from the treasury to carry out wage reform. Essentially, the money that enterprises use to readjust and reform wages has also been left to enterprises by the state through legislation and policies. In this sense, the bonus funds that enterprises use in a blanket reform of wages is, in fact, also national funds. The different form in which the sources of funds used by enterprises and by national organizations and institutions shows up is merely a difference in the form in which national funds are distributed.

Some employees have asked why a subsidy for length of service is not instituted for workers, and why it has been instituted only for units in government organizations and institutions? This is because changes in workers' wages are directly related to the results enterprises show. When an enterprise produces, its employees' wages increase correspondingly, and

differences in distributions among employees is determined by how well individuals produce rather than being directly connected to seniority. The wages of workers in national organizations and institutions cannot be directly tied to results, however, nor can distributions be made according to how well individuals produce. Thus, institution of subsidies for length of service is necessary to encourage workers to be content in performance of their duties. In addition, the institution of seniority subsidies in business enterprises would be a very complex problem with numerous ramifications. It would be necessary to take into consideration relationships between new and old workers, differences in skills and different lengths of service. If not handled well, new anomalies could arise.

3. Correct Handling of Wage Reform

The party and government have always showed concern for the livelihood of the broad masses of employees, and development of production has served as a basis for increasing the earnings of employees over the years. In 1985, per capita wages of employees in state-owned enterprises was more than 92 percent greater than in 1978. The extent of increase in the earnings of employees must depend on the country's ability to bear the burden. To throw reality to the winds and increase wages too much can mean price inflation and no real gain.

China is a developing country, and it is also a large country with a population of more than 1 billion. A large population means a heavy employment burden, yet economic development remains fairly backward. This is the basic national situation that must be taken into consideration in carrying out wage reform. As Premier Zhao said in his "Report on the Seventh 5-Year Plan": China has a huge population. Every year several million people in cities and towns need jobs, yet production skills and the labor productivity rate have remained at a fairly low level for a fairly long period of time. In addition, China is currently in the pioneering stage of modernization when large accumulations of funds are needed for all kinds of construction. If overly large strides are taken in consumption, the economy will collapse before its time.

Our distribution policy is to each according to his work. This requires overcoming egalitarianism and recognizing differences, and not having too great differences. It is also necessary to intensify ideological and political work to resolve conflicting ideological questions.

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CSO:4006/1029

LABOR AND WAGES

FEMALE ENTERPRISE WORKERS TO TAKE COURSE

OW241358 Beijing XINHUA in English 1339 GMT 24 Aug 86

[Text] Beijing, August 24 (CINHUA)--The women enterprisers association of the Chinese Research Society for Modernization of Management today disclosed that it will join efforts with the Beijing Modernized Management Institute to start a correspondence course for women enterprises.

This decision was announced at the first meeting of the board of directors of the association, which was attended by over 20 women factory directors and company managers from across China.

Huang Lin, chairman of the association and director of the Beijing No 3 semiconductor devices factory, told the meeting that it is the task of the association to train the women enterpriser with the successful management experience and scientific knowledge from both at home and abroad.

The managing cadres college under the All-China Women's Federation last year opened a modern management workshop, which was attended by about 45 outstanding young women factory directors and company managers, she said. The women enterprisers association founded in June last year recruited most of these outstanding women factory directors and company managers, and it now has a total of 88 members.

The association will also arrange academic exchanges between its members and their colleagues from both in China and other countries, she added.

Wu Wenying, minister of the textile industry, was invited to attend the meeting. She said that in China's textile industry, women workers accounted for over 60 per cent of its workforce and that there are an increasing number of women enterprisers in the industry who thirst for advanced knowledge in modern production and management.

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CSO: 4020/432

LABOR AND WAGES

LABOR OFFICIAL CITES BENEFITS OF CONTRACT SYSTEM

OW310948 Beijing XINHUA in English 0630 GMT 31 Aug 86

[Text] Beijing, August 31 (XINHUA)--The contract system, which has recently been introduced to many of China's enterprises, satisfies workers as well as employers, a high-ranking official of the Ministry of Labor and Personnel said here today.

"This system closely links workers' personal interests with their contribution and the destiny of enterprises," said the official.

The system, he added, provides an opportunity for the workers to choose their work while allowing enterprises to have a bigger say in hiring staff, in contrast to the old system of state assignment.

Under the new system, contracts clearly regulate the duties, responsibilities, rights, interests and contract terms for both parts, the official said.

The contracts are protected by law and "anyone who breaks the contract will be dealt with according to the law," he said.

According to the State Commission for Restructuring the Economy System, China will promulgate this year regulations on the extension of the contract work system in state-owned enterprises and regulations concerning the dismissal of workers for violating work rules, on the recruitment of workers and on labor insurance for the unemployed.

The labor contract system will come into force nationwide with the publication of the regulations.

The system was first tried out at the Jianian Printing Company of Shenzhen since late 1981. The country now has 3.5 million contract workers, accounting for five percent of its total industrial work force.

China's labor reform is aimed at laying the foundation of a dynamic socialist economic structure in about five years.

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CSO: 4020/432

LABOR AND WAGES

XIAN SURVEY COMPARES CONTRACT, PERMANENT WORKERS

HK1111436 Xian Shaanxi Provincial Service in Mandarin 2330 GMT 7 Aug 86

[Text] A sample survey conducted by the Xian City Federation of Trade Unions on reform of the employment system shows that contract workers have a stronger sense of responsibility than permanent workers have regarding the success or failure of their enterprises. They study information and technology more conscientiously than permanent workers do, and they perform better than permanent workers in observing labor discipline and doing work.

Over the past 2 years, over 400 enterprises in Xian have employed some 13,000 contract workers. The city federation of trade unions recently conducted a sample survey among management cadres, permanent workers, and contract workers in four enterprises including the Xian No 1 radio plant. By issuing questionnaires and holding discussion meetings, the federation investigated the reform of the employment system in the enterprises.

The survey results comparing contract and permanent workers show that the contract workers' employment system has demonstrated to society its distinct superiority and vitality. Generally speaking, contract workers closely link their own fate with the fate of their enterprise. They are very concerned about the operations and the reform of their enterprises. They take an active part in activities organized by their enterprises, such as proposing reasonable suggestions and a labor emulation drive. Contract workers say: "Only if our enterprises prosper will we continue to be employed."

The contract employment system demands that contract workers pay more attention of the fate of their enterprise. Contract workers do not have the sense of security and the iron bowl that permanent workers have. They know very well that if they do not study scientific and cultural information and do not master one or two skills, they might be washed out. Therefore, they conscientiously study information and technology. Of the 60-odd contract workers employed by the Xian Glass Products Plant, one-third attended television university courses, sparetime universities, or adult higher learning courses. In the first half of this year, 15 persons from the plant took the television university examination and the examination of adult higher learning for those who teach themselves. Among them 12 were contract workers.

In addition to studying their own professional information, many contract workers also study foreign languages, finance and accounting, economic management, and law so as to meet the needs of transfer of the work force.

Management cadres in the four enterprises surveyed believe that it is easier to supervise contract workers than permanent workers, as contract workers have a strong sense of discipline, seriously abide by rules and regulations, and work hard. There are 447 contract workers in the 4 enterprises. Over the past 2 years, only three contract workers were fired for absence without reason. In accordance with the work performance and service of all waiters, the Jiefang Road Dumpling Restaurant last year elected nine outstanding waiter, of whom six were contract workers.

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LABOR AND WAGES

BRIEFS

LABOR FORCE AS LABOR PRODUCT--[Article by Wang Shaozheng: "Labor Force Is Also a Kind of Labor Product"] Labor force is also a kind of labor product, and is a special kind of labor product. The reason is that labor is composed of two major factors: Physical power and mental power. The sum of physical and mental power is man's labor capability. However, a man does not have these two factors and is not a laborer when he is born, and he only has the possibility of becoming a laborer. Labor is necessary in order to turn a person from a would-be laborer into a real laborer who has actual work abilities. The process of turning a person into a laborer can again be divided into two stages, which are also the two reasons labor force is a labor product. Therefore, it is not hard to see that labor force is indeed a labor product, and is the result of many people's work. [Excerpts] [Beijing GUANGMING RIBAO in Chinese 23 Aug 86 p 3 HK] /6662

CSO: 4006/1321

POPULATION

BRIEFS

SHANGHAI FIRST CITY OF AGED--There are 1.56 million people 60 years old or older, accounted for 13.2 percent of the total population in Shanghai. Report from this newspaper: According to JIEFANG RIBAO, Shanghai is the first city of the aged in China. As of the end of 1985, there were 1.56 million people aged 60 years old or more in Shanghai, accounted for 13.2 percent of the total population. According to persons concerned, internationally there are two standards to determine the age of old people: 60 or 65. It is generally recognized as an aged city if the elderly account for 10 percent of the total population. In Shanghai, if the 500,000 or more retired women who are below 60 years old are included in the aged group, then the old people would constitute one-sixth of the total population. The average age of these people is below 70. They are generally in good health. According to certain sources, the average lifespan in Shanghai is 73 years old. Compared with 40 years old in the early postliberation period, it has increased almost 1 year every year. /Text/ /Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 6 Jul 86 p 4/ 12228

CSO: 4006/1299

TRANSPORTATION

ANHUI PARTY LEADER INSPECTS RAILWAY WORK

OW091439 Hefei Anhui Provincial Service in Mandarin 1000 GMT 8 Aug 86

[Excerpts] While inspecting work at the Bengbu Railway Branch Bureau on the afternoon of 7 August, Comrade Li Guixian, secretary of the Anhui Provincial CPC Committee, said that railway workers have enhanced their enthusiasm for work. Therefore, local authorities should support them. The initiative of both local and railway authorities should be pooled to improve railway work.

Comrade Li Guixian spent half a day listening to reports by Wang Jinka, secretary of the bureau's party committee, and by Fu Kaixian, director of the bureau, on the work of the bureau and on railway construction. After affirming the bureau's success, Li Guixian said: Introduction of the contract responsibility system has quickly raised railway transport capacity. Transportation is one of the linchpins of the national economy. Railway transport has made great contributions to developing Anhui's economy. In Anhui, the major form of transportation is the railways. The economy cannot be invigorated if the railway transport service is not improved. Therefore, local governments should take the initiative in assisting and supporting railway construction.

When he was told of the unloading problems encountered by the bureau, Comrade Li Guixian immediately suggested that the province, cities, and prefectures pay attention to this problem and try to solve it.

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CSO: 4006/1303

TRANSPORTATION

ZHENGZHOU RAILWAY BUREAU PLANS CHANGES DURING 7TH 5-YEAR PLAN

HK121415 Zhengzhou Henan Provincial Service in Mandarin 2200 GMT 9 Aug 86

[Text] During the Seventh 5-Year Plan period, the Zhengzhou railway bureau will undergo great changes. The bureau will basically fulfill the transformation of its economic structure from a production structure into an innovative business unit. It will also change its operation's rigid pattern into a flexible one, so as to make provision for further development in the next decade.

During the Seventh 5-Year Plan period, the railway bureau will build three railroads: the Daye-(Shahejie) railroad; the Baoji-(Zhongwei) railroad; and the Shangqiu-Puyang railroad. It will also rebuild three railroads: that is, double-tracking part of the Jiaozuo-Xiangfan railroad and as electrifying the Zhengzhou-South Wuchang railroad and the Zhengzhou-Baoji railroad. At the same time, it will speed up the pace of electrifying the double-tracked north Changzhi-Yueshan railroad, as well as the Xinxiang-Jiaozuo railroad and the new Xinxiang-Heze railroad. It will also speed up the pace of railroad station projects in north Zhengzhou, at the hub of communications in Luoyang, as well as in south Wuchang, west Wuhan, north Xiangfan, east Xian, and east Baoji. It will build new railroad stations at (Xianfeng) town in Shangqiu and in Hankou.

By 1990, the bureau's diesel and electric locomotives will move over 70 percent of the area's transport. The use of computers will also be adopted by the transport front and its headquarters. Therefore, railroad supervision will become modernized.

At present, the bureau has implemented a comprehensive economic responsibility system which includes workers' performance and output volume. This task, which was contracted out by the Ministry of Railways, has been assigned to various railway sub-bureaus, which have in turn assigned it down to railroad stations and sections at various levels. The bureau's 33,000 workers are determined to take reforms as the motive force, and to strive to make greater contributions to the state during the Seventh 5-Year Plan period.

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CSO: 4006/1303

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ANALYSIS OF INFLATION PROBLEM IN YUGOSLAVIA

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 3, 10 Mar 86 pp 84-90

[Article by Wang Zhan [3769 3277] of the Graduate School of Foreign Economic Management of the People's University of China: "Preliminary Analysis of Inflation in Yugoslavia"]

[Text] After Yugoslavia implemented the self-management system, the growth rate of its social output value remained between 10.4 and 16.7 percent for 8 consecutive years during the 1953-60 period and became one of the countries with the highest economic growth rate in the world. But since the late 1960's, Yugoslavia has encountered many problems in economic construction such as instability in economic growth and constant fluctuation in the growth of social output value. The general trend of growth rate has been a decline. One of the knottier problems they have encountered is worsening inflation. From the mid 1970's to the early 1980's, this problem has become the "knottiest one in the economic development" of Yugoslavia.

1. Yugoslavia's Worsening Inflation and Its Negative Effect on Economic Growth

A. The inflation problem has existed in Yugoslavia since its founding.

In the late 1950's and the early 1960's, as large numbers of capital construction projects were carried out, and labor forces continued to flow from rural to urban areas. Because of this and the nation-wide dispersion of the right to income distribution, the supply of commodities often fell short of demand on the market and the inflation rate continued to increase. In 1964, the inflation rate reached 9.2 percent (Yugoslav inflation rate is calculated by the increase rate of retail prices), the peak in the previous 10 years. In 1965 and 1966, the inflation rate increased very rapidly, reaching 29.5 and 22.8 percent respectively. Of course, this was caused mainly by adopting large-scale price readjustment measures to eliminate irrational price differences among products. From 1967 to 1970 it was relatively stable thanks to measures adopted to curtail consumption. The inflation rates during these 4 years were 6.8, 4.3, 7.3 and 9.2 percent respectively, an annual increase rate of 7 percent, close to the 6.7 percent average increase rate of

inflation in the first 4 years of the 1960's. However, shortly after that, the inflation rate rose again and maintained double digits almost throughout the 1970's. Especially in the mid and late 1970's, Western markets were hit by an energy crisis and the prices of oil and raw materials ballooned, causing great impact on Yugoslav economy, and prices escalated continuously. In 1973, 1974, and 1975, Yugoslav inflation rates reached 18.6, 25.9, and 26.2 percent respectively. In March 1975, the Yugoslav inflation rate reached 33 percent. In 1976, Yugoslavia had to take drastic administrative measures to restrict price increases in an effort to reverse the serious situation. As a result, in 1976 its inflation rate declined to 9.4 percent, but its economic departments suffered 22 billion dinar of losses (approximately \$1.3 billion), substantially weakening its reserve ability and causing its production growth rate to decline. From the end of 1979 to the first half of the 1980's, Yugoslavia's inflation was like a runaway horse--even more difficult to control. In 1983, the inflation rate reached 58.4 percent, a record in Yugoslav history and the highest in Europe. After adopting a series of measures, the inflation rate was brought down to 56 percent in 1984. But, these measures did not solve the problem fundamentally, since 1985 prices have resumed the tendency of sharp increases. In early 1985, the latest price law announced by Yugoslavia went into effect and about two thirds of all prices were set freely by production organizations according to market supply and demand. In the meantime, the Federal Republic of Yugoslavia, to make up budget deficits, raised circulation taxes on eight categories of commodities. Because of this, prices of a series of food products and consumer goods have risen sharply since the beginning of 1985. In November 1985, the inflation rate was 78 percent higher than the corresponding period of the previous year and the cost of living was 104.4 percent higher. In May 1985, the Yugoslav government set forth 13 measures for the control of price increases, demanding that the prices of 367 products in 18 industrial departments be brought back to the level of February 1985 and suggesting that the prices of 17 production departments be reexamined and readjusted. However, because these measures have not been enforced effectively, the majority of products have not yet resumed their original prices.

B. Serious inflation has caused negative effect on both economic life and national stability and unity.

1) Inflation, especially the serious inflation in recent years, has caused confusion in the nation's economic life and adversely affected the economic development of Yugoslavia. It has become a major cause for the decline in the economic growth rate of Yugoslavia. From 1953 to 1960, the Yugoslav inflation rate was relatively low. Since the mid 1960's, it began to worsen gradually while the corresponding total social output value began a steady decline from 6.8 percent from 1961 to 1965 to 5.8 percent in the years from 1966 to 1970. After 1979, the inflation rate spiraled upwards while total social output value plunged from 2.3 percent in 1980 to 1.5 percent in 1981, to 0.8 percent in 1982, and to -1.3 percent in 1983. It rose slightly to 2 percent in 1984, but the situation was dim again in 1985. Overall, economic development has been stagnant in the past few years.

2) Worsening inflation and widespread sharp increases in commodity prices have caused workers' actual personal income (actual wages) to decline continuously.

It is reported that at present the regular income of most workers is not enough to cover basic family expenses and 40 percent or more of them need to rely on other sources of income to live on. Among about 56 percent of all families, food expenses become the first item on family budget. For the retired and the unemployed, it is even harder to maintain normal living standards. According to statistics, in 1984, the monthly cost of living for a family of four was 39,642 dinar, but in March 1985, it went up to 45,859 dinar, an increase of 14 percent. In the first half of 1985, the cost of living increased 68.8 percent compared to that of the corresponding period of 1984.

3) In recent years, rampant inflation has posed a serious problem. In 1984, Smejalevich [phonetic], chairman of the Community for Prices of the Federal Republic of Yugoslavia, said: "This year's inflation rate will maintain last year's level and the worst of this is that such a high inflation rate has continued for 4 years running. This has exceeded not only the limit set by the plan but also the limit of tolerance. This has adverse effects on both economic policies as a whole and self-management." The report of the 12th Congress of the League of Communists of Yugoslavia also pointed out that "due to the high inflation rate, the value of effective labor has been offset, workers' enthusiasm for increasing production and labor productivity dampened, the relation between commodities and currency destroyed, and the process of reproduction disrupted." Serious inflation is the expression of prolonged instability in economic development. If it is not brought under control resolutely and quickly, it will inevitably give rise to social contradictions and threaten social stability.

2. The Causes of Inflation

The economics community in Yugoslavia thinks Yugoslav inflation is different from general inflation for it is a mixture of multiple types of inflation such as demand, consumption, structure, and import. Therefore, its causes also concern many fields. They are mainly as follows:

A. Investment beyond financial ability has long been the major cause of worsening inflation in Yugoslavia.

Yugoslav investment in fixed assets has always been on the high side. This is demonstrated first by the high proportion of investment in social output value. During the initial stage of economic reform, or before 1960, Yugoslav fixed-asset investments generally were at about 27 percent of social output value (equivalent to national income plus depreciation). This figure suited the economic situation at that time; therefore, investment returns were high, production development coordinated, and development fairly rapid, bringing the average annual increase rate of social output value to 11.3 percent from 1957 to 1960. In the mid and late 1960's, local and labor organizations were endowed with the power to expand reproduction. To increase income, they more often than not exceeded their own financial ability to make large investment. So, Yugoslav fixed-asset investment continued to increase year after year and reached 35.4 percent in 1964. Although reduction measures were adopted in 1965, the annual fixed-asset investment rate still averaged about 30 percent from 1966 to 1974. In the mid and late 1970's, because the inflation rate

continued to rise, lending rates were relatively low, and fixed-asset investment continued to increase, the average annual fixed-asset investment rate from 1977 to 1979 again exceeded 34 percent (calculated according to the constant prices of 1972) which was very high compared with either other socialist or capitalist countries in West Europe. Take 1979 for instance. Fixed-asset investment rate was 36.4 percent in Yugoslavia, 21 percent in Hungary, 18 percent in the Soviet Union (the above figures were proportions in national income), 23 percent in West Germany, 21 percent in France, and 19 percent in England.

Increasingly higher investment growth rate in the mid and late 1970's caused Yugoslav investment scale to extend far beyond the limit allowed by the financial and material resources of the state. During 1970 to 1980, Yugoslav total annual investment in fixed and liquid assets was equivalent to two-fifths of its social output value, far beyond the reserves of labor organizations under economic departments. Take 1979 for another instance. That year, Yugoslav total investment accounted for 45.5 percent of its social output value (calculated in 1979 current prices), of which fixed-asset investment accounted for 38.4 percent, but the reserve rate of labor organizations under economic departments was only 11 percent. Because of this, more and more investment funds relied on loans, causing bank credit to expand continuously.

In the late 1970's, Yugoslav associated labor organizations were given the right to get loans directly from abroad. At that time, supply exceeded demand on the European credit market and loans were issued on favorable terms. As a result, foreign loans became an important source of funds which the associated labor organizations used to make up for the shortage of investment funds. For instance, the Yugoslav social plan for 1976 to 1980 stipulated that foreign loans should account for 9 percent of total investment in grassroots organizations. As it turned out in the implementation, the figure rose to 18 percent in the first 3 years. Between 1977 and 1981, Yugoslavia on the average used \$2 to \$3 billion of foreign loans, of which a considerable amount was invested in capital construction. Especially after 1977, the proportion of Yugoslav foreign loans continued to increase because Yugoslavia tried to repay its debts on time and because foreign loans were converted into dinar at domestic banks to make up for the shortage of dinar needed by associated labor organizations for excessive above-plan investments, resulting in the oversupply of paper money.

High investments beyond national strength will inevitably cause demand to increase and the shortage of some consumer goods, building materials, technical equipment, and other goods and materials to become increasingly acute. Many goods and materials have to be imported from abroad at high prices using foreign exchange, thereby causing prices to rise.

B. Serious imbalance of national economic structure has long been a prominent issue in Yugoslavia's economy.

Before the economic reform, the imbalance of Yugoslavia's national economic structure was demonstrated mainly as backward agriculture and light industry. In the initial stage of the reform, economic structure became rationalized due

to the readjustment of development principles and agricultural policies. As a result, from 1953 to 1960, the economy developed at high speed in a balanced and stable manner. During this period, the inflation rate was very low, averaging about 2.7 percent a year.

In the late 1950's and the early 1960's, along with the further development of economic reform, the regulatory mechanism of markets became stronger and stronger and especially due to the continuous dispersion of investment rights, national economic structure resumed the tendency of imbalanced development. Its main expressions were: Basic industries gradually lagged behind processing industries and agricultural production growth slowed down. By the 1970's, the problem of imbalance in the national economic structure worsened. Basic industries such as energy and raw materials and agriculture became increasingly unable to meet the needs of national economic development. This was mainly because the products of these sectors were generally low-priced and often controlled by the state and because the expansion of reproduction in these sectors required large investments but yielded slow results. Due to these reasons, labor organizations were generally reluctant to invest in these sectors, causing the number of products in short supply to decline continuously. As a result, oil, electricity, and other energy resources and raw materials were seriously insufficient and had to be imported for a long period of time. Fuel, raw materials, and materials for further processing imported by Yugoslavia account approximately for over 70 percent of its total imports. The figure reached 76 percent in 1981, costing nearly \$10 billion, of which oil alone cost \$2.2 billion. In regard to the machine-building industry, due to poor technology and equipment at home, imports of large amounts of foreign technology and equipment were often necessary. In 1981, equipment imported by Yugoslavia accounted for 18 percent of its total imports, costing nearly \$2.4 billion. Annual imports of raw materials, materials for further processing, and equipment resulted in huge foreign trade deficits.

Yugoslavia's backward agricultural development in the 1970's is another prominent expression of the imbalance in the economic structure. The growth rate of Yugoslav agricultural production declined from 3 percent from 1965 to 1970 to less than 2 percent from 1975 to 1980. Despite its superior natural conditions, since the 1970's Yugoslavia has gradually changed from a farm products exporting country to an importing one. From 1966 to 1970, about \$100 million of farm products were exported. From 1976 to 1980, \$200 million of farm products were imported annually, turning trade surpluses to deficits.

Permanent shortage of basic industrial products and farm products in Yugoslavia has made the price increase of such products uncontrollable and massive imports of such products over a long period of time have caused huge trade deficits and increasing foreign debts. Once a country falls into a situation in which it is overdependent on imports, inflation and soaring prices on the world market will be inevitably reflected to the domestic market of this country. Some people therefore say Yugoslavia has in fact imported inflation.

Yugoslav automobiles, household appliances, and the processing industry of other consumer goods are more lucrative and are the targets of competition for

the investment of labor organizations; therefore, they have developed very fast and their equipment capacity has increased continuously. However, in recent years, because of repeated reduction in imports and in a situation where raw materials were insufficient, international market competition was fierce and products were hard to export, the equipment utilization rate could only reach about 60 percent. All this happened because the production cost of products continued to increase, the reserves and reproduction ability of economic departments continued to decline, and labor organizations often raised prices to compensate for their weakened ability to pay.

In sum, the prolonged serious imbalance in Yugoslavia's national economy has caused imbalance in finance, credit, and supplies. Failure to balance finance, credit and supplies will inevitably result in the instability of currency or inflation.

C. For a considerably long period of time, the growth rate of Yugoslav personal consumption was higher than that of labor productivity and productive and non-productive consumption of society was higher than the total output of society, contributing to another major cause of the worsening of inflation.

In the national income of Yugoslavia, the portion of personal consumption rose substantially after 1967 and maintained a relatively high level until the 1980's. What is especially noteworthy is that the growth rate of personal consumption was much higher than that of labor productivity throughout the 1970's. Take 1971 to 1975 for example, the average annual growth rate of personal consumption was 5.5 percent while that of labor productivity was only 2.1 percent. Comparing 1976 to 1980 with the previous 5 years, the growth rate of personal consumption was 5 percent while that of labor productivity was 2.3 percent.

Judged by total social consumption (including personal, collective and public consumption and investment), the continuous increase of workers' personal income and non-productive consumption and investment in the 1970's caused total social consumption to rise and exceed far beyond what the national economy could bear. For instance, between 1971 and 1975 total social consumption was 7.5 percent higher than total social output value. Between 1976 and 1980, the figure was 7.1 percent. In 1979, it even went over 10 percent. This situation continued until 1983 when finally social consumption was basically leveled with social products.

To maintain higher incomes to meet workers' consumption needs, some associated labor organizations often turned to price increases for a way out, contributing to man-made causes of price increases.

D. Practicing deficit financing and issuing large amounts of paper money are the direct cause of inflation.

Along with the continuous development of the reform of economic structure and especially since the reform of 1965, the power of income distribution has been gradually delegated to lower levels, substantially reducing the sources of budget revenues for the Federal Republic of Yugoslavia. To make up for growing budget expenditures on the one hand and stimulate production on the

other, Yugoslavia adopted the policy of deficit financing. To compensate for financial deficits, Yugoslavia has issued more paper money than demand called for almost every year since 1968. This is the direct cause of inflation. In December 1967, currency in circulation in Yugoslavia totalled 23.5 billion dinar (about \$1.88 billion). By October 1970, the figure rose to 38 billion dinar (about \$3.04 billion). Within 2 years and 10 months, the total amount of currency increased 62 percent, namely \$1.16 billion. Until the early 1980's the Federal Republic of Yugoslavia had to issue paper money to make up for billions of dinar of budget deficits. To stop worsening inflation, Yugoslavia decided to stop deficit financing and issue no more paper money beginning in 1983.

Generally speaking, commodities are still insufficient in Yugoslavia. The supply of many goods and materials still fall short of demand. In this situation, implementing the policy of deficit financing not only cannot stimulate economic development but will exacerbate inflation and cause prices to rise sharply.

E. Adopting the policy of devaluing the dinar against foreign currencies is also a cause of worsening inflation.

To reverse longtime foreign trade deficits, restrain imports, and stimulate exports, Yugoslavia adopted the policy of devaluing the dinar against foreign currencies. The dinar was devalued once as early as in the 1950's. It was devalued twice in the 1960's and as many as five times in the 1970's. Since the 1980's, the dinar has been devalued almost every year against the dollar. In 1984 alone, it devalued 68.5 percent. Dinar devaluation has provided a favorable condition for Yugoslav exports, but because the competitiveness of Yugoslav products lags far behind other developed countries on international markets, as a whole, many years of dinar devaluation against foreign currencies have failed to bring about significant increases in exports. For instance, the growth rate of exports was 8.5 percent between 1966 and 1970, 7.3 percent between 1971 and 1975, and 2.9 percent between 1976 and 1980. Through great efforts, a 6 percent growth rate was recorded in 1984. Hence the devaluation of the dinar has not stopped a downward tendency in the growth rate of exports.

Dinar devaluation has reduced the growth rate of imports, but Yugoslavia is a very open country, its economy is highly dependent on imports, and 70 to 90 percent of its imports are made up of energy, raw materials and equipment; therefore, Yugoslavia cannot reduce imports substantially. Otherwise, it will affect production growth and cause the supply of products on domestic markets to fall short of demand and prices to rise. According to statistics, between June 1980 when the dinar was devalued 30 percent and early 1981, the factory prices of industrial products jumped 31 percent. As a result, some industrial products made for exports became more profitable when sold on domestic markets, thereby offsetting the purpose of dinar devaluation to encourage exports. Now many people contend that under the condition that the imbalance problem of national economic structure has not been solved properly, the key lies in increasing exports, but imports should maintain a certain ratio; otherwise, it will cause substantial economic fluctuation. Dinar devaluation, as an isolated measure, can only worsen inflation.

After entering the 1980's, especially in the recent 2 to 3 years, Yugoslav inflation grew by an even greater margin. This is because right around 1982 was the peak period for paying capital and interest on large amounts of foreign debts. According to statistics, by 1990 Yugoslavia will have to use about \$5 billion each year to pay capital and interest on foreign debts, forcing it to get new loans to pay old debts. This has not only created great economic burden on the state but also seriously impeded the development of the economy as a whole and the improvement of living standards, worsening the shortage of Yugoslav financial and material resources and causing greater difficulties for the implementation of measures to smooth out economic relations as soon as possible and check inflation and price increases. Moreover, since 1984, Yugoslavia has to a great extent simplified the "Anti-Inflation Plan" into dinar exchange rates and interest rate policies that concern the immediate reality but failed to implement a series of other measures stipulated in the "Anti-Inflation Plan." Especially, when serious imbalances still existed between the economy and the market, yet preparations were insufficient, Yugoslavia made a sudden transition to the practice of allowing associated labor organizations to control the prices of most products (about two thirds) according to market supply and demand (according to the new price law of 1985), resulting in spontaneity and the loss of control in regard to pricing and causing all prices to increase markedly and inflation to worsen.

3. Reasons for Failing To Stop Inflation Over a Long Period of Time

Since the 1960's, Yugoslav prices have continued to increase. In the mid and late 1970's, Yugoslavia repeatedly adopted measures to stop price increase but none of them was very effective. As a result, inflation has become a long-standing big and difficult problem. What are the reasons? Economic circles in Yugoslavia have the following answers:

A. For a long time, Yugoslavia failed to attach sufficient importance to the inflation issue.

Yugoslavia has repeatedly adopted anti-inflation and price control policies to stabilize the economy, but in general, it lacks comprehensive and effective measures. Earlier, some Yugoslav economists even believed that the existence of a certain degree of inflation can help utilize unused equipment and labor resources and boost economic development. Under the influence of such views, before the mid 1970's, Yugoslavia actually believed that it was all right to allow a certain degree of inflation.

By the late 1970's and the early 1980's, inflation already became very serious and its perniciousness became increasingly noticeable. Yugoslavia was thus determined in 1981 to establish a committee on the problems of economic stability and in 1984 formulated an "Anti-Inflation Plan." By then, although the problem had gotten enough attention, it could not be solved overnight because it had existed for too many years.

B. Failure to stop inflation over a long period of time is related to certain inadaptability of economic and political systems.

For a long time, a series of economic factors which have vital bearing on inflation such as investment scale, credit scale, consumption funds, and foreign loans were determined, according to Yugoslav current economic system, not by a unified social plan, but by thousands of local and associated labor organizations. Proceeding from their own interests, such organizations let the above factors expand freely, resulting in the loss of macroeconomic control. This has inevitably contributed to excessive investment and consumption, imbalance in economic structure, credit expansion, and sudden increases in foreign debts. Moreover, the current economic system lacks necessary automatic regulatory mechanism, causing inflation to exist over a prolonged period of time and continue to worsen. Yugoslav leaders have addressed this issue on many occasions in recent years. Zarkovic, president of the presidium of the League of Communists of Yugoslavia, pointed out not long ago that the root of the social and economic problems currently existing in Yugoslavia "lies in the various weaknesses of the system itself." He contended that "overemphasizing the interests of nationalities and the part has infringed upon the interests of Yugoslav working class as a whole, thus impeding the development of economic and political systems." Mika Spiljak, president of the presidium of the League of Communists of Croatia, said: "To solve the many problems facing our society, we should carry out critical explorations in regard to the economic system and the effectiveness of the mechanism of the political system."

4. Current Anti-Inflation Measures Adopted by Yugoslavia

In the past few years, the inflation issue has attracted nationwide attention and Yugoslav leaders have determined to adopt comprehensive measures to tackle it and have listed it as a task of primary importance at present. Since the committee on the problems of economic stability was established in 1981, Yugoslavia has drawn up, promulgated and implemented such documents as the "Basic Starting Points of the Long-term Plan for Economic Stability," (which was adopted by the 12th Congress of the League of Communists of Yugoslavia) and the "Anti-Inflation Plan." In December 1983, the Federal Assembly of Yugoslavia adopted the "Resolution on 1984 Social and Economic Development and Economic Policies." In addition to defining 1984 tasks and measures for economic development, the resolution stipulates the principle for the first phase of the long-term plan for economic stability (1984-1986). These documents set forth a series of concrete anti-inflation measures which are mainly as follows:

A. Reduce investment and slow down consumption growth. The anti-inflation plan demands that new investments, especially non-productive investments, be reduced, suggesting that the proportion of fixed-asset investments in social products be reduced from the previous 35 percent to 25 percent. (It was reduced to about 22 percent in 1984). It demands that correct investment orientation be selected, economic structure improved and priority given to the investment of departments that produce export goods. Inflationary investment loans and joint investments should be terminated and bank loans gradually reduced. The proportion of self-pooled funds should account for at least over 40 percent of projected investment and gradually increase later on. Certain departments which have priority in development such as departments of basic industries may

go below the official proportion. Investment results must be proved and subjected to appraisal by banks and scientific and technological units. Large amounts of investment should be decided by the vote of labor collectives which assume sole responsibility for the economic consequences of their investment. Measures involving economic sanctions should be adopted to prevent breaking the limit of investment and dragging out the construction period of projects. Investments using foreign loans should be minimized. General and common consumption should be reduced properly. With regard to personal income, progressive taxes levied on total income should be properly increased for citizens, but it must not affect the principles of to each according to his work and economic incentives. Reduction of investment and consumption is bound to reduce the growth of demand and play an important role in checking inflation.

B. Exercise strict control over the growth of foreign debts. Yugoslavia borrowed an average of \$630 million each year in foreign funds between 1961 and 1970 and an average of \$3.12 billion between 1971 and 1980. By the end of 1984, Yugoslavia owed \$23.7 billion in capital and interest on foreign debts. Owing large amounts of foreign debts is not only the important cause of serious economic problems in Yugoslavia in recent years but also the important factor of worsening inflation. As a measure to fight inflation and stabilize the economy, Yugoslavia has strengthened the centralized management of foreign debts and foreign exchange. 1) To control the growth of foreign debts, the Federal Assembly of Yugoslavia in July 1983 passed a law on loan guarantees provided by the federal republic, stipulating that enterprises cannot borrow money from abroad and that all republics and autonomous provinces need guarantees provided by the People's Bank of the Federal Republic for foreign loans. The People's Bank is the only supervisor for obtaining foreign loans. It has the right to examine projects using foreign exchange and exercise overall control over the requisition of foreign loans. 2) Yugoslavia in 1983 formulated a law on liberal foreign exchange payment, clearly laying out the responsibility of all levels for paying foreign debts. If necessary, the People's Bank of the Federal Republic has the right to use the foreign exchange of the country to pay foreign debts. 3) Yugoslavia strengthened its control over foreign exchange. With regard to the foreign exchange earned by export departments, 46 percent are retained by themselves and units concerned for common distribution and the remaining 54 percent are delivered to higher levels for use by the whole society. Above-quota foreign exchange must be sold to authorized banks within 2 days by associated labor organizations and the banks must put it on the Yugoslav unified foreign exchange market within 5 days.

C. Exercise strict control over the amount of currency issued and the total scale of loans. One of Yugoslavia's inflation control measures emphasizes the need to exercise strict control over the amount of currency issued and reduce credits in an effort to reduce the part of demand increased because of the excess supply of currency. Before 1965, Yugoslavia intended to issue 3 to 5 percent more currency to stimulate production. Later on, Yugoslavia adopted deficit financing and issued additional currency to offset deficits. But, since 1983, it has decided not to practice deficit financing and designated the People's Bank as the supervisor. In the meantime, Yugoslavia has adopted measures to check credit inflation and implemented the policy of current

interest rates. Inflation rate was 3 times higher than the lending rate during the years 1980 to 1981, giving rise to many problems. Because of this, interest rates have been raised, and specifically the structure of interest rates has been readjusted, to restore normal functioning of the interest mechanism as soon as possible. Considering the fact that current economic departments are already heavily burdened, interest rates should not be raised too high too suddenly; otherwise, they will become a heavy blow. Efforts should therefore be made to reduce the inflation rate promptly to accommodate interest rates and enable them to coordinate with each other. In addition, Yugoslavia will no longer be able to use bank loans to pay for the personal income of associated labor organizations. Loans for such purpose can only be provided by common reserve fund organizations.

D. Implement the policy of current exchange value of the dinar. Yugoslavia thinks implementing the policy of current exchange value of the dinar is conducive to increasing exports, improving the balance of international revenues and expenditures, economic development, and eventually restraining inflation. But at present, implementing this policy is actually allowing the dinar to devalue substantially against foreign currencies. Yugoslavia considers it only a temporary phenomenon, believing that along with economic development the gap between Yugoslav inflation rate and the average inflation rate of developed Western countries will narrow and the increase and decline rates of the exchange value of the dinar will diminish day by day. Yugoslavia thinks that it should not artificially separate the dinar from the equilibrium of its exchange value and allow it to plummet and especially it should not determine the exchange value of the dinar against foreign currencies according to black market prices. Yugoslavia thinks all this is unfavorable to restraining domestic consumptive inflation.

E. Change the current planning system. Yugoslavia passed a new planning law in August 1985 and changed the current planning system. According to the new law which emphasizes the role of planning, future Yugoslav national plans will be the basis for the formulation of plans by all republics and autonomous provinces and a strategic documents that guides the development of the overall economy. It will no longer be an intentional document or a collection of plans of all fields as in the past. The "Resolution on Social and Economic Development" adopted annually by Yugoslavia will be used mainly for the implementation of commonly accepted development principles and as a policy document for the implementation of social plans. The new planning law was formulated according to the guidelines of the "Long-term Program for Economic Stability." It emphasizes unity, strives to overcome parochialism, and increases the duties and responsibility of local areas to the federal republic, thereby overcoming the tendency of each acting independently and ignoring the overall situation, enabling social development to become more coordinated and stable, and facilitating the achievement of "unified self-management" of the economy and society as a whole.

F. Increase the management results of associated labor organizations. Yugoslavia thinks to make the anti-inflation plan a success, it must increase the management results of associated labor organizations. To do so, it needs to reduce their burdens, improve their financial situation, and enhance their production ability. Especially in regard to those associated labor

organizations suffering economic losses, it should adopt strict policies to help them turn deficits into profits as soon as possible. Yugoslavia formulated three sets of measures to help associated labor organizations turn deficits into profits. First, the individual income of the employees of money-losing organizations should be reduced; money-losing organizations should be exempted from income taxes; their depreciation rate should be lower than the official rate, but it will be compensated in the future; if necessary, their employees should be reduced, but they will be assisted in replacement; and their leading personnel should be reelected. Second, member units of an associated organization should assume common responsibility for the losses of every member unit, banks extending loans to money-losing organizations should receive economic sanctions, and money-losing organizations may be exempted from interest payment on loans or allowed to put off their loan payments. Third, for those organizations which still have losses after adopting the above measures, the personal income taxes of their workers may be reduced. Yugoslavia emphasizes that if an organization fails to fulfill the loss-reversing plan after adopting these measures, it should be closed down.

12302

CSO: 4006/1056

TAIWAN

COMPENSATION FROM U.S. FIRM FOR GENERATOR FIRE TO BE SOUGHT

HK130604 Hong Kong AFP in English 0554 GMT 13 Aug 86

[Text] Taipei, Aug 13 (AFP)--Taiwan plans to seek compensation from the U.S. firm General Electric (GE) for a fire last year in a GE-designed nuclear power generator, Vice Economic Minister Li Mo said Wednesday.

Mr Li told reporters the state-run Taiwan Power Company (Taipower) was "studying ways" to ask GE for compensation following the July 7, 1985 blaze at a 951,000 kilowatt nuclear power plant in southern Taiwan.

After months of tests and analysis, the U.S. company which designed the generator admitted the accident was caused by an "unexpected" incident involving the blades in the generator turbine, said Yen Cheng-hsing, chairman of the Atomic Energy Council.

He added that there were design defects in the generator's blades.

An investigation found that after several blades in the generator's turbine broke, vibration caused by the broken blades striking the turbine's casing cracked a tightly-sealed cooling tank containing hydrogen.

Leading hydrogen ignited by sparks led to the fire in the generator, one of two at the southern Taiwan nuclear plant.

No one was hurt in the incident and there was no radiation leakage.

Mr Li said Taipower was trying to discover GE's obligations through legal channels.

Mr Le said that GE should pay the 50 million U.S. dollars it cost to repair the generator.

The six generators of Taipower's three nuclear power plants have a combined capacity of 5,140,000 kilowatts. They provide some 35 percent of the electricity consumed by the 19 million people in Taiwan.

Protests from environmentalists and anti-nuclear groups have forced the company to shelve its plan to build the country's fourth nuclear plant.

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CSO: 4020/432

HONG KONG

TRADE OFFICIAL AMBIVALENT TOWARD MULTI-FIBER ARRANGEMENT

HK050623 Hong Kong HONG KONG STANDARD (BUSINESS section) in English 5 Aug 86
p 1

[Article by Cynthia Suen]

[Text] United States officials, as well as representatives of Hong Kong textile industry, agree that the new Multi-Fibre Arrangement [MFA] will help to defuse some of the ammunition to override President Reagan's veto of the Jenkins Bill, which is scheduled to be voted on tomorrow.

The MFA settlement in Geneva last Friday, will allow the U.S. "to moderate growth in textile and apparel imports without incurring reprisals against U.S. exports abroad," according to White House spokesman Mr Larry Speakes.

He pointed out that the new MFA expands coverage to previously uncontrolled fibres such as ramie, linen and silk blends. It also provides a mechanism to prevent destructive import surges and improve provisions to guard against fraud.

The administration has fulfilled President Ronald Reagan's directive to "aggressively renegotiate the MFA on terms no less favourable than present" when he vetoed the Jenkins Bill last December, Mr Speakes said.

U.S. Trade Representative Clayton Yeutter predicted the new MFA will limit growth of U.S. textile imports far below the average of about 17 percent annually over the past five years.

He said the three major changes in the new MFA will end the kind of import surges that occurred in 1983 and 1984, which stimulated the formation of the Jenkins Bill.

Mr Lawrence Mills, director-general of the Federation of Hong Kong Industries, described his feelings towards the new pact as "a combination of disappointment and relief."

While he said the extension of coverage means more restrictions, he pointed out that Hong Kong would be very vulnerable if a new MFA is not in place before tomorrow's House vote.

He said there should be enough time on the part of the U.S. Administration to defuse pressures in Congress for the override.

Mr Kaysar Sung, chief editor of TEXTILE ASIA, who was present in Geneva during the MFA talks, said although the new MFA will not calm down protectionist feelings, at least it will not weaken objection to the Jenkins Bill among some U.S. congressmen.

Mr Speakes condemned the Jenkins Bill, saying it would cost consumers an extra U.S.\$44,000 million for clothing over the next five years, guarantee retaliation against U.S. exporters and disrupt the MFA and other international agreements.

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OCTOBER 14, 1986